APPENDIX

IN THE

Supreme Court of the United States

OCTOBER TERM, 1977

No. 77-832

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,

Petitioner,

—*v.*—

FIRST LINCOLNWOOD CORPORATION

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

PETITION FOR A WRIT OF CERTIORARI FILED DECEMBER 9, 1977
CERTIORARI GRANTED, FEBRUARY 21, 1978

IN THE

Supreme Court of the United States

OCTOBER TERM, 1977

No. 77-832

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,

Petitioner,

—*v.*—

FIRST LINCOLNWOOD CORPORATION

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

INDEX TO APPENDIX

UNITED STATES COURT OF APPEALS
SEVENTH CIRCUIT

Docket No. 76-1114

DATE	FILINGS—PROCEEDINGS
2/ 5/76	Filed O&3c of Petition for Review of an order of the Bd. of Governors of the Fed. Res. System.
2/ 5/76	Filed Clerk's copy of notice of service on counsel for respondent.
4/14/76	Filed O&3c of Appellant's Motion for Extension of time to file Brief—svc., aff.
4/14/76	Filed O&3c of Appellant's Motion for Transmission of Record—svc.
4/19/76	Entered Order Granting Motion; Respondent is directed to transmit the record on review, by 5/14/76.
4/19/76	Entered Order Extending time to file petitioner's brief to 6/25/76.
4/22/76	Filed O&3c of Respondent's Motion for Order Directing that the confidential section of the record on appeal and any briefs referring to or quoting the confidential section be withheld from public disclosure—svc.
4/28/76	Entered Order that the entire record (including briefs) be withheld from public disclosure and that said record and briefs may be viewed only by the parties to this appeal and their attorneys. This order is w/o prejudice to filing of a motion for leave to view the record. Any such motion shall designate those portions of the record that movant desires to view.

DATE	FILINGS—PROCEEDINGS
5/21/76	Filed O&3c of petitioner's motion for release of record—svc.
5/28/76	Entered order granting motion of 5/21/76.
6/11/76	Filed O&3c of petitioner's motion for ext. of time to file brief to 7/9/76—svc. aff.
6/15/76	Entered order granting motion of 6/11/76.
7/ 9/76	Filed 15c of petitioner's brief—svc.
8/ 5/76	Filed O&3c of respondent's motions for ext. of time to file brief to 9/10/76—svc. aff.
8/ 5/76	Entered order granting motion of 8/5/76.
9/13/76	Filed O&3c respondent's motion for leave to file typewritten brief-affidavit-service & 1c of brief tendered.
9/14/76	Entered order denying motion of 9/13/76 & respondent's brief due 9/20/76.
9/27/76	Filed 25c respondent's brief—service.
10/ 5/76	Filed 15c petitioner's reply brief, service.
10/ 5/76	Entered order setting appeal for oral argument on 10/22/76 9:30 am. Oral argument limited to 20 min. per side.
10/22/76	Heard and taken under advisement.
12/ 7/76	Filed opinion by Judge Hastings, Judge Fairchild dissenting in part, affirmed—review denied.
12/ 7/76	Entered final judgment order affirmed, & review of order denied.
12/16/76	Filed 25c petition for rehearing (en banc), service, distributed.
12/21/76	Filed O&1c affidavit of verified bill of costs—$140.80.

DATE	FILINGS—PROCEEDINGS
1/13/77	Sent notice to the respondent that answer to the petitioner's petition for rehearing be filed on or before January 24, 1977.
1/24/77	Filed O&3c appellee's consent motion for one-week extension of time in which to respond to rehearing petition. svc.
1/25/77	Entered order extending time until January 31, 1977, for appellee to file response to petition for rehearing and suggestion for rehearing in banc.
1/27/77	Filed 25c appellee's opposition to petition for rehearing, dist. svc.
4/ 3/77	Entered order that this appeal be reheard *in banc* on April 19, 1977 at 2:00 PM, oral argument to be limited to 15 min. per side.
4/19/77	Heard and taken under advisement.
7/13/77	Filed opinion by Judge Fairchild.
7/14/77	Entered final order per C.R. 35 that printed opinion is corrected by adding asterisk following Judge Wood's name at line 2 on page 1, and the following footnote: "*The Honorable Philip W. Tone did not participate in the consideration or decision of this appeal."
7/13/77	Entered final judgment order: SET ASIDE AND REMANDED.
7/20/77	Filed O&3c respondent's motion to stay issuance of mandate, svc.
7/22/77	Entered order granting respondent's motion to stay issuance of mandate to August 19, 1977.

DATE	FILINGS—PROCEEDINGS
8/15/77	Filed O&3c respondent's motion to further stay issuance of mandate, svc.
8/18/77	Entered order granting respondent's motion to further stay issuance of mandate to Sept. 19, 1977.
9/12/77	Filed O&3c appellee's motion to further stay issuance of mandate, svc.
9/15/77	Entered order granting respondent's motion to further stay issuance of mandate, until Oct. 10, 1977.
10/11/77	Filed O&3c respondent's motion to further stay issuance of mandate, svc.
10/11/77	Filed copy of letter to respondent's from Supreme Court extending time in which to file a petition for wirt of cert. until 11/10/77.
10/17/77	Entered order that enforcement of this court's final judgment is STAYED until Nov. 10, 1977, per Rule 41(b).
11/ 7/77	Filed O&3c respondent's motion to further stay issuance of mandate, svc.
11/ 7/77	Filed copy of letter from Supreme Court that an extension of time has been granted for filing a petition for cert.
11/11/77	Entered order granting respondent's motion to further stay issuance of mandate until Dec. 10, 1977, per Rule 41(b), F.R.A.P.
12/16/77	Filed notice of filing petition for cert. on Dec. 9, 1977; Supreme Court No. 77-832.
3/ 7/78	Filed order from Supreme Court dated 2/21/78, granting petition for cert.

APPLICATION

To the Board of Governors of the
Federal Reserve System

by

FIRST LINCOLNWOOD CORPORATION—6-3-75
6401 N. Lincoln Avenue, Lincolnwood, Illinois 60645

FOR PRIOR APPROVAL OF ACTION TO BECOME A BANK HOLDING COMPANY PURSUANT TO SECTION 3(a)(1) OF THE BANK HOLDING CO. ACT OF 1956, AS AMENDED

Page(s) Contents

First Lincolnwood Corp. (hereinafter referred to as Applicant), a Corporation organized under the laws of the State of Illinois and having its principal place of business at 6401 N. Lincoln Ave., Lincolnwood, Ill., hereby applies to the Board of Governors of the Federal Reserve System (hereinafter referred to as Board), pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956, (hereinafter referred to as Act) as amended, for prior approval by the Board of action proposed to be taken by Applicant which would result in its becoming a bank holding company with respect to the following bank(s):

Corporate Title and Location of Bank	Number or percentage of Bank's voting shares: Now owned, controlled, or held with power to vote	Proposed to be acquired
First National Bank of		
Lincolnwood	None	80% or more
Lincolnwood, Illinois		

(hereinafter referred to as BANK(S).

The following Exhibits prepared in accordance with the General Information and Instructions on pages 3 and 4 are submitted as part of this application:

EXHIBIT A—Resolution of Board of Directors

EXHIBIT B—Description of Applicant and Proposed Transaction

EXHIBIT C—Financial and Managerial Information

EXHIBIT D—Convenience and Needs

EXHIBIT E—Competition Among BANKS

EXHIBIT F—Nonbanking Activities—Competition

EXHIBIT G—Nonbanking Activities—Other Aspects

Applicant represents that the information contained in this application is true and complete to the best of its knowledge and belief.

Executed this 17th day of May, 1975.

First Lincolnwood Corp.
(Name of Applicant)

by /s/ Harold Cohn
(Authorized Officer)

ATTEST:

/s/ Robert J. O'Rourke
(Secretary)

EXHIBIT A—RESOLUTION OF BOARD OF DIRECTORS

RESOLUTION

Applicant's Board of Directors, or other appropriate governing body, shall authorize the execution and delivery of this application to the Board by a resolution substantially in the form as that which follows:

RESOLVED, that Harold Cohn the President, and Joseph E. Franks the Vice President, of First Lincolnwood Corp., (hereinafter referred to as Applicant), or either of them, be and they hereby are authorized and empowered for and in the name and on behalf of Applicant to execute and deliver to the Board of Governors of the Federal Reserve System, pursuant to section 3 (a) (1) of the Bank Holding Company Act of 1956, as amended, an application for prior approval by the Board of action to be taken by Applicant which would result in its becoming a bank holding company.

CERTIFICATE

I HEREBY CERTIFY that the foregoing is a true and correct copy of a resolution adopted by the Board of Directors of First Lincolnwood Corp. at a meeting duly called and held at Lincolnwood, Illinois on the 17th day of May, 1975, at which meeting a quorum was present and voted.

/s/ Robert J. O'Rourke
(Secretary)

[SEAL]

EXHIBIT B—DESCRIPTION OF APPLICANT AND PROPOSED TRANSACTION

1.) A pro forma organization chart is attached indicating ownership control by the First Lincolnwood Corp. of the First National Bank of Lincolnwood, Lincolnwood, Illinois and it's wholly owned subsidiaries, Lincolnwood National Safe Deposit Co. and First Travel Tours, Inc. First Travel Tours, Inc. was incorporated in August 1969 and has been active since that date. A comparative statement of First Travel Tours, Inc. is attached.

2.) (a) The Bank has a total of 144,375 shares of common stock, authorized and outstanding, having a par value of $10.00 per share.

(b) The First Lincolnwood Corp. will assume a total debt of *$3,280,000.00 by means of the proposed acquisition of 80% or more of the outstanding common stock of the First National Bank of Lincolnwood. This total indebtedness represents an average price of $26.40 per share of Bank stock. The original average price per share paid for this stock by the members of the "Voting Trust Agreement dtd 2/20/73" is $35.25. The principal lender is the Central National Bank of Chicago which is the principal correspondent Bank of the First National Bank of Lincolnwood. The terms of this debt call for a 12 year amortization of the principal balance with interest at the current prime rate as set by the loaning Bank. There is no formal agreement to maintain compensating balances at the Central National Bank. Balances maintained at the Central National Bank by the First National Bank of Lincolnwood are expected to be in accordance with services performed in the normal course of correspondent banking. It is presently anticipated that

* This amount represents a total indebtedness of $3,697,000.00 which will be reduced immediately after approval of the proposed acquisition to bring the ratio of debt to cost below 75%.

balances maintained at the principal correspondent bank should average between $600,000.00 and $800,000.00. The bulk of this balance is maintained to offset the cost of customer security transactions and safekeeping costs for customer and bank owned securities. The charges for customer security transactions are charged to analysis at the correspondent bank rather than a direct service charge. This enables the bank to charge their customer in deference to their account relationship while simplifying bookkeeping procedures. Other correspondent banking services that require balances to offset costs are as follows:

Reserve Requirements	Commercial Letter of Credit
Coupons Cashed	Collections
Account Debits	Foreign Drafts
Account Credits	Documentary Collections
Currency Deposits	Bond Redemptions
Money transfers	Commercial Paper Purchases
Rolled Coin Orders	Commercial Paper Collections

An amortization schedule indicating the retirement of the above mentioned debt is included in the "Confidential" section of this application.

(c) The Holding Company anticipates the acquisition of 80% or more of the common stock of the bank. This represents approximately 124,244 shares. The acquisition is to be by an exchange of one (1) share of Holding Company common stock for one (1) share of common stock of the Bank.

(d)

(i) The Applicant does not presently hold any shares of the Bank stock.

(ii) The Applicant does not have any subsidiaries that hold shares of the Bank stock.

(iii) The following list represents shareholders, officers and employees of the Applicant that hold shares of stock in the Bank:

Name and Position	No. of Bank Shares held
Dr. Fred Weitz, Chairman	100*
Harold Cohn, Pres. & Director	515*
Donald B. Kaufman, Director	110*
Harry Zaidenberg, Director	100*
Joseph E. Franks, Vice President	259

* These shares represent those held individually, by the above indicated persons, and does not include those shares held by them under the Voting Trust Agreement dated Feb. 20, 1973, a copy of which has been enclosed.

(e) The Applicant does not intend to make a formal written offer to Bank shareholders since it is anticipated that the only Bank shares to be acquired are those held by the Directorship and the certain "Voting Trust" in which the Directors of the applicant and the Bank participate.

(f) The most recent market price of the Bank's shares is $37.50, bid and asked. This price represents the fair market value based on the recent offer by members of the "Voting Trust" for 40,732 shares of Bank stock that were traded between Sept. 15 and October 15, 1974. There is no established price for the Applicants shares at this time. The Bank's shares are non-listed and are usually traded between private parties and periodically through a securities Broker.

(g) Since the Applicant and the Bank share some common Directorship the formation of the Holding Company for the purpose of acquiring the Bank stock is by mutual agreement of all of the parties involved. There was no brokers or finders fee to be paid with regard to the proposed transaction. Further details, as to the reason for the transaction are attached as "Confidential" material.

(h) No consideration, monetary or otherwise, has been paid, given or offered or will be paid, given or offered to any shareholder, director or officer in connection with the consummation of the proposed transaction. There are no covenants not to compete given

or offered to or asked of any shareholder, director or officer in connection with the consummation of the proposed transaction.

3.) There are no shares of any bank held in trust by a trustee of a pension or profit-sharing plan established for the benefit of the shareholders or employees of the Bank, Applicant or any of its proposed subsidiaries as a class.

4.) Neither the Applicant, nor any of its proposed subsidiaries or affiliates, is a lender with respect to any loan collateralled by shares of the Bank.

5.) The First National Bank of Lincolnwood does not have any loans outstanding collateralled by bank stock which represents more than five (5) per cent of that bank.

6.) The First National Bank of Lincolnwood has been in existence since 1955 and is therefore not a new operating bank.

Exhibit C—Financial and Managerial Information

1.) A pro forma balance sheet of First Lincolnwood Corp. is attached and thereby made a part of this application.

2.) A pro forma statement of estimated earnings for the First Lincolnwood Corp. for the first full year of operation after consummation of the proposed acquisition is attached in the "Confidential" section and thereby made a part of this application.

3.) The Applicant proposes to issue $1,500,000 in 15 year Capital Notes of the First Lincolnwood Corp. at a rate commensurate with the current Bond rates in effect at the time of offering. The proceeds of these notes would be used solely to increase the equity capital of the Bank. It is anticipated that the offering of these Notes would be done locally such as to shareholders of the Applicant and the Bank and to depositors of the Bank. The proposed offering of Capital Notes would take place within one year after consummation of the proposed acquisition. The Bank currently handles approximately $11,500,000.00 in customer security transactions. These

securities are held in safekeeping with Correspondent Banks for customer accounts. The average term of these securities if 60 to 90 days and involves approximately 450 separate accounts. Since the rate of interest to be offered on the Capital Notes of the Applicant is to be competitive with the current market rates it is felt that these Notes will be well received in the area.

4.) The following financial reports of the First National Bank of Lincolnwood, as filed with the Federal Supervisory authorities, are attached and made a part hereof:

(a) Consolidated Report of Condition

December 31, 1965	December 31, 1970
December 31, 1966	December 31, 1971
December 31, 1967	December 31, 1972
December 31, 1968	December 31, 1973
December 31, 1969	December 31, 1974

(b) Consolidated Report of Income and Dividends

Calendar Year ended	
1965	1970
1966	1971
1967	1972
1968	1973
1969	1974

5.) A plan to raise equity capital for the benefit of the capital structure of the Bank is planned through the issuance of $1,500,000.00 in 15 year Capital Notes of the First Lincolnwood Corp. as fully described in #3 exhibit C.

6.) A copy of the 1974 Annual Report to the shareholders of the First National Bank of Lincolnwood, including the Bank's wholly owned subsidiaries, Lincolnwood National Safe Deposit Company and First Travel Tours, Inc., is attached and made a part hereof.

7.) The names and addresses of each shareholder owning directly or indirectly 5 percent or more of outstanding voting stock of the First National Bank of Lincolnwood is as follows:

Name and Address	Number of Shares owned
Harry Zaidenberg, Donald Kaufman, Joseph Stelzer and George Collins, Trustees under Voting Trust Agreement dated February 20, 1973. c/o First National Bank of Lincolnwood, 6401 N. Lincoln Avenue, Lincolnwood, Illinois 60645	124,244

41,193 shares of the First National Bank of Lincolnwood were deposited to the "Voting Trust" during the 12 months prior to the Holding Company application.

40,732 shares were acquired by Messrs. Weitz, Zaidenberg, Cohn, and Kaufman between September 15, 1974 and October 15, 1974. These shares were deposited in the "Voting Trust" as follows:

9/27/74	29,999 shares
10/18/74	10,029 shares
10/31/74	704 shares

The price paid for these shares was $37.50 per share.

461 shares were deposited to the "Voting Trust" by Mr. Zaidenberg individually as follows:

Date Acquired	No. of Shares	Date Deposited
4/18/74	120	7/16/74
4/30/74	264	7/16/74
11/ 7/74	77	11/ 7/74

The price paid for these shares was $25.91 per share.

8.) A list of Directors and Officers of First Lincolnwood Corp. exercising similar functions with the First National Bank of Lincolnwood is listed below. Included in this list are the remaining members of the "Voting Trust Agreement dated 2/20/73".

Name and Address	No. of shares held with (a) Applicant and (b) Bank	Position with (a) Applicant (b) Bank (c) Other	Positions with other Financial Institutions
Harold Cohn Skokie, Illinois	(a) 17,900** (b) 515*	(a) Dir. & Pres. (b) Vice Ch. & Pres. (c) None	None
George Collins Chicago, Illinois	(a) None (b) 100	(a) None (b) Director (c) Att'y	Director Merchants & Manufacturer Bk, Melrose
Joseph E. Franks Elk Grove Village, Ill.	(a) None (b) 259	(a) Vice Pres. (b) Exec. V.P. & Dir. (c) None	None
Donald Kaufman North Barrington, Ill.	(a) 16,299** (b) 110*	(a) Director (b) None (c) Real Estate Developer	Director River Grove State Bank
Ralph Kuhlman Elk Grove, Ill.	(a) None (b) None	(a) Treasurer (b) V.P. & Comptroller (c) None	None
Robert J. O'Rourke Roselle, Ill.	(a) None (b) None	(a) Sec'y (b) V.P. & Cashier (c) None	None
Clarence Permut Chicago, Ill.	(a) 3,000** (b) 100*	(a) None (b) Director (c) Pres. Erie Clothing Co.	None
Mark Rubert Lincolnwood, Ill.	(a) 4,147** (b) 110*	(a) None (b) Director (c) C.P.A.	None
Joseph P. Stelzer Chicago, Ill.	(a) 2,890** (b) 110*	(a) None (b) Director (c) Retired	None
Dr. Fred Weitz Lincolnwood, Ill.	(a) 57,459** (b) 100*	(a) Chairman (b) Chairman (c) Dentist	None
Nels E. Werner Chicago, Illinois	(a) 1,215** (b) 100*	(a) None (b) Director (c) Engineer	Chairman, River Grove State Bank

Name and Address	No. of shares held with (a) Applicant and (b) Bank	Position with (a) Applicant (b) Bank (c) Other	Positions with other Financial Institutions
Harry Zaidenberg Chicago, Illinois	(a) 21,334** (b) 100*	(a) Director (b) Director (c) Att'y	Director Palwaukee State Bank

None of the above named individuals are involved in any agreement similar to that which is described in this application.

*** These shares represent those held individually by the above indicated persons, and does not include those shares held by them under the "Voting Trust Agreement dtd 2/20/73".**

**** These shares represent those which will be held by these individuals by means of exchange for shares of the Bank now held in the Voting Trust.**

80,360 shares of the common stock of the First National Bank of Lincolnwood were deposited to the "Voting Trust" on Feb. 20, 1973. Since that date, 43,884 additional shares have been acquired by members of the "Voting Trust Agreement dated 2/20/73. These additional shares have been deposited to the "Voting Trust" by its members for the sole purpose of assuring continuity of responsible Bank Management.

9.) There are no changes contemplated to be made in the membership of the Board of Directors or principal officers of either the Applicant or the Bank.

Exhibit D—Convenience and Needs

1.) There are no expected changes in service charges or in demand deposit accounts. The Bank maintains service charge schedules that are competitive with area banks as defined in regulation 7.8000 of the interpretive rulings of the Comptroller of Currency.

2.) The Bank pays interest rates on Time and Savings deposits to the maximum rate allowed by the Board of Governors of the Federal Reserve System, as defined in regulation Q. It is not anticipated that there will be any changes in the interest rates paid on time and savings deposits except those that may be prescribed from

time to time, the the Board of Governors of the Federal Reserve System.

3.) The rates of interest charged by the Bank on loans is competitive with other area banks and is primarily geared to current market rates. There are no expected changes with regards to maximum maturities or other loan terms.

4.) Due to the infusion of $1,500,000.00 in Equity Capital, the Bank's legal lending limit will be increased thereby increasing the total amount which could be extended to any one borrower. If there is no increase in loan demand, the funds will be invested in the Fed Funds market or Security Investment Portfolio. There are no other expected changes in the composition of the Bank's loan and investment portfolio.

5.) The Bank currently has plans under consideration to remodel the second floor of the Bank Building to accommodate the Commercial Loan Dept., Installment Loan Dept., Auditing Dept., Central Files, and the anticipated formation of a Trust Dept. Although the Bank has commissioned the Bank Building Corp. to project certain requirements for future expansion, it is not anticipated that any remodeling costs in the near future will exceed $150,000.00.

6.) The Bank maintains business hours that are competitive with area banks. The main Bank building is open for business during the following hours:

Mon., Tues., Thurs., & Fri.:	9:00 A.M. to 3:00 P.M.
Thurs. Evening:	6:00 P.M. to 8:00 P.M.
Saturday	9:00 A.M. to 1:00 P.M.

Drive In Windows:

Mon., Tues., & Fri.:	8:00 A.M. to 4:00 P.M.
Thursday:	8:00 A.M. to 8:00 P.M.
Wed. and Saturday:	8:00 A.M. to 1:00 P.M.

The Bank maintains a Drive In/Walk In Facility at a location within 1500 feet of its principal Bank building and maintains the following hours at this location to better serve the community:

Mon., Tues., Thurs., & Fri.:	7:30 A.M. to 8:00 P.M.
Wed.:	7:30 A.M. to 5:00 P.M.
Sat.:	7:30 A.M. to 1:00 P.M.

7.) At a meeting of the Board of Directors of the First National Bank of Lincolnwood held on November 21, 1974, a resolution was passed authorizing the Bank's officers to submit an application to the office of the Comptroller of the Currency for the formation of a Trust Dept. This application is near completion and will be submitted in the near future.

8.) In the event that the application to establish a Trust Dept. is approved this added service will benefit the Bank's customers and local residents in the establishment of "Land Trusts" without the inconvenience of having to seek this service outside of the Bank's geographic area.

Exhibit E—Competition Among Banks

In accordance with the instructions this exhibit need not be completed since the proposal involves only one Bank.

Exhibit F—Nonbanking Activities—Competition

In accordance with the instructions this exhibit need not be completed since the Applicant does not anticipate, at this time, engaging in any nonbanking activity that requires separate Board approval.

Exhibit G—Nonbanking Activities—Other Aspects

In accordance with the instructions this exhibit need not be completed since the Applicant does not anticipate, at this time, engaging in any nonbanking activity that requires separate Board approval.

FEDERAL RESERVE BANK OF CHICAGO
230 South La Salle Street
Chicago, Illinois 60690
(312) HA 7-2320

June 3, 1975

Mr. Harold Cohn, President
First Lincolnwood Corp.
6401 North Lincoln Avenue
Lincolnwood, Illinois 60645

Dear Mr. Cohn:

This is to acknowledge receipt by this Reserve Bank of the application by First Lincolnwood Corp., Lincolnwood, Illinois, for prior approval of the Board of Governors of the Federal Reserve System, pursuant to Section 3 of the Bank Holding Company Act of 1956, as amended, to become a bank holding company through the acquisition of 80 percent or more of the voting shares of The First National Bank of Lincolnwood, Lincolnwood, Illinois.

Your application has been reviewed preliminarily. If further review by our staff or the Board's staff indicates that additional information is necessary, you will be informed.

Information submitted as confidential has been accorded such treatment and no other information contained in the application is deemed to warrant such treatment.

A copy of the application has been forwarded to the Comptroller of the Currency for his views and recommendation, as required by law. A copy has also been sent to the Department of Justice, and notice of receipt of the application will be transmitted to the Federal Register for publication. In addition, the Illinois Commissioner of Banks and Trust Companies and the Federal Deposit Insurance Corporation have been notified of receipt of the application.

The application is not being processed under delegated authority because of the current capital position of the bank involved, which appears unsatisfactory despite a proposed capital injection; and because it is questionable

whether, in view of the amount of acquisition debt to be incurred by Applicant, this capital position could be maintained or improved during the debt retirement period.

In view of the factors involved in this transaction, the 45-day period as provided for in Section 225.3(b) of the Board of Governors' Regulation Y is hereby suspended.

Should any unusual problems develop that would appear likely to delay processing of the application, you will be informed by this Bank or by the Board.

Very truly yours,

/s/ Franklin D. Dreyer
FRANKLIN D. DREYER
Vice President

lb

cc—Board of Governors

FEDERAL RESERVE BANK OF CHICAGO
230 South La Salle Street
Chicago, Illinois 60690
(312) HA 7-2320

August 6, 1975

Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Gentlemen:

First Lincolnwood Corp., Lincolnwood, Illinois, has submitted an application to the Board of Governors for prior approval of action to become a bank holding company through the acquisition of 80 percent or more of the voting shares of The First National Bank of Lincolnwood, Lincolnwood, Illinois.

The factors involved in this proposed transaction, although marginal, lend weight towards approval in view of the proposed capital injection and the substantial improvements management has been able to effect in Bank. Bank is financially sound and future prospects appear favorable; consequently, both Supervision and Regulation and Research departments recommend approval of the application.

It is the recommendation of this Reserve Bank that the application by First Lincolnwood Corp. be approved by the Board of Governors of the Federal Reserve System.

Very truly yours,

/s/ Harry S. Shultz
HARRY S. SCHULTZ
Senior Vice President

FEDERAL RESERVE BANK OF CHICAGO
230 South La Salle Street
Chicago, Illinois 60690
(312) HA 7-2320

File Date 8/6/75

AIR MAIL

Clearing Unit
Division of Banking Supervision
and Regulation
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Gentlemen:

There are enclosed the original and a copy of this Reserve Bank's memorandum prepared in connection with the application by First Lincolnwood Corp., Lincolnwood, Illinois, for prior approval of action to become a bank holding company through the acquisition of 80 percent or more of the voting shares of The First National Bank of Lincolnwood, Lincolnwood, Illinois.

Very truly yours,

/s/ Franklin D. Dreyer
FRANKLIN D. DREYER
Vice President

MEMORANDUM

FEDERAL RESERVE BANK OF CHICAGO

DATE: August 6, 1975

TO: Board of Governors of the Federal Reserve System

FROM: Federal Reserve Bank of Chicago

SUBJECT: Application by First Lincolnwood Corp., Lincolnwood, Illinois ("Applicant"), for prior approval of action to become a bank holding company through the acquisition of 80 percent or more of the voting shares of The First National Bank of Lincolnwood, Lincolnwood, Illinois ("Bank").

TABLE OF CONTENTS

SUMMARY OF ISSUES

The proposed transaction—First Lincolnwood Corp., Lincolnwood, Illinois ("Applicant"), has submitted an application to the Board of Governors for prior approval of action to become a bank holding company through the acquisition of 80 percent or more of the voting shares of The First National Bank of Lincolnwood, Lincolnwood, Illinois ("Bank").

Financial and managerial considerations—Bank has a sound asset structure and satisfactory management; however, its capital sufficiency is less than adequate. Although the proposed $1.5 million equity infusion by Applicant would initially raise capital to a marginally adequate level, Applicant's high degree of leverage (88 percent of first year assets) and associated debt retirement program, may strain future capital adequacy in view of Bank's recently dramatic deposit growth. Although Bank's earnings have been historically plagued by legal expenses and loan charge-offs generally attributable to directors and their interests no longer associated with Bank, current earnings prospects are favorable. Despite the probability that capital ratios may be below Board guidelines during the debt retirement period, it is noteworthy that Bank's favorable condition is directly attributable to present management; Bank had an equivalent rating of ________ in 1967, in comparison to the current ________ rating. Bank's prospects would be severely reduced, particularly capital enhancement since the proposed capital injection represents a 41 percent increase in adjusted capital, if this application were denied. Bank's ownership is apparently doing everything possible to maintain Bank in a satisfactory condition, and the holding company structure would present substantial cash flow (tax benefits from consolidating earnings), which would reduce dividend requirements for debt amortization, thus improving Bank's prospects for additional capital enhancement through earnings retention.

Competition—Applicant was recently organized for the purpose of becoming a bank holding company with respect to Bank, and has engaged in no business activities as yet. Since the proposal is essentially a restructuring of Bank's ownership whereby the ownership of Bank will be shifted from individuals to a corporation owned by the same individuals, consummation of the proposal would eliminate neither existing nor potential competition, nor would it increase the concentration of banking resources in any relevant market. As such, competitive considerations are viewed as being consistent with approval.

Convenience and needs considerations—Area banking needs are believed adequately served at present. Applicant has proposed no significant changes in Bank's services or operations as a result of the instant reorganization. However, limited public benefits should arise due to the infusion of additional equity capital into Bank and from financially related activities and services that Applicant could provide as a result of the holding company form of organization. On balance, convenience and needs considerations are viewed as being consistent with approval.

RECOMMENDATIONS

Supervision and Regulation Department	Approval
Research Department	Approval
Reserve Bank	Approval

Supervision and Regulation Department	Research Department
/s/ [Illegible]	/s/ [Illegible]
/s/ [Illegible]	/s/ [Illegible]

ADDITIONAL INFORMATION

We have reviewed the information contained in the Comptroller of the Currency's letter dated July 24, 1975, and despite the adverse recommendation contained therein, we continue to recommend approval of the application. As indicated in the Comptroller's letter (all references made in the memorandum concerning the Comptroller's office refer to and are the result of personal discussions with various personnel from the Regional Administrator's office in Chicago), Applicant's principals through a voting trust have had a favorable impact on improving Bank's financial condition. Moreover, the Comptroller apparently supports our conclusion that Bank's earnings have improved, and that the level of future earnings (as projected for debt retirement and capital enhancement), needed to amortize Applicant's debt can be reasonably attained. It appears that the Comptroller's only objection to the proposal is that the debt incurred (both acquisition and from the proposed injection of capital), will be solely held by the proposed holding company, thus relieving individual responsibility for Bank's ownership and capitalization. As indicated by submitted personal statements, if the principals had additional debt capacity perhaps other alternatives, with the exception of dilution of ownership, would be available, however, this is not the case. The current debt position of the principals is directly tied to acquisition of additional control of Bank, and at the same time exercising this control to improve its daily operation and general condition. We believe this control is fundamental to the current well being of Bank, thus, it seems inappropriate to penalize the principals for their accomplishment using debt, by denying their plans for reorganization when their past actions generally support approval of the proposal. The holding company structure will enhance Bank's prospects for capital retention. Moreover, Bank's improving and conservative asset condition and its managerial competence outweigh low capital ratios which are expected to improve in time.

THE PROPOSAL

Bank's shares and proposed acquisition—Bank has 144,375 shares of common stock outstanding, having a par value of $10 per share. Applicant proposes to acquire 124,244 shares of Bank's stock (86.07 percent), now owned by a voting trust[1] comprised of and for the benefit of Messrs. Harry Zaidenberg, Donald B. Kaufman, Harold Cohn, and Fred Weitz, in exchange for 124,244 shares of Applicant's common stock, having a par value of $1 per share. Applicant will also assume a total of $3,697,000 in debt, payable to Central National Bank in Chicago, Illinois, at the prime rate which is to be amortized over a twelve-year period. In an apparent effort to improve Bank's capital position, Applicant has committed to sell within one year of consummation of the proposal, $1.5 million in 15-year capital notes, the proceeds of which would be used to purchase additional shares of Bank's capital stock.

Value of participants' shares and premium—Applicant was recently organized with a minimum of capital, and there is no established market for its shares. Bank's shares are unlisted and are usually traded between private parties and periodically through a local securities broker. The most recent market price of Bank's shares was $37.50, bid and asked for 40,732 shares of Bank's stock that were traded between September 15 and October 15, 1974. As of December 31, 1974, Bank's book value, including equity capital and reserve for loan losses, was $26.40 per share. The proposal is essentially a reorganization of ownership with no realizable premium or discount involved. Bank's shareholders intend to receive Applicant's stock in exchange for Bank shares plus the remaining acquisition debt originally incurred in acquiring these shares. Currently, acquisition debt on the proposed shares exceeds their respective year-end book value by $416,958 or $3.36 per share.

[1] Voting trust agreement, dated February 20, 1973 and expiring August 1, 1982, is not considered to be a company under the Bank Holding Company Act of 1956, as amended.

Consideration or compensation—Applicant states none has been given, paid or offered in connection with consummation of the proposed transaction. Neither Applicant nor Bank has entered into or proposed to enter into any anticompetitive agreement with any director, officer, or shareholder of Bank.

FINANCIAL AND MANAGERIAL CONSIDERATION

Bank

(1) *Financial History and Asset Condition*

History—Bank was organized as a National Bank on March 11, 1955, and was admitted to membership in the Federal Reserve System on October 10, 1955, under the chartered name of Consumers National Bank of Chicago, Chicago, Illinois. In 1962 the Bank moved to Lincolnwood, Illinois, and changed its name to The First National Bank of Lincolnwood, Lincolnwood, Illinois. The last examination of Bank was conducted by examiners for the Comptroller of the Currency on March 31, 1975.

Asset condition—The examination report revealed a total of $674,686 in classified assets ($447,685 substandard, $162,500 doubtful, and $64,501 loss) with $404,142 in loans subject to special mention. Classified assets were 17.84 percent of gross capital funds with approximately 10.35 percent of these criticized assets representing other real estate and speculative security issues. The overall loan policy is conservative and supports a well diversified loan portfolio which offsets approximately 50 percent of total deposits. Deposits are considered well proportioned between 66 percent time and 34 percent demand. Bank's investment portfolio is similarly well structured with 15 percent in U.S. Government obligations, 20 percent in Federal Agency issues, and 65 percent comprised of municipal issues and well-rated corporate securities. The maturity distribution of the securities account is satisfactory with 13.1 percent and 90.8 percent coming due within one and five years, respectively. Fixed

assets are fairly valued and depreciated in accordance with suggested guidelines.

Bank has a travel agency subsidiary, First Travel Tours, Inc., with total assets of $52,327 as of December 31, 1974. This subsidiary represents a nominal .074 percent of Bank's assets and poses no financial drain; earnings of $8,727 in 1974, and $13,737 in 1973, represented 16.2 percent and 24.4 percent return on respective year-end assets.

In view of Bank's performing and conservative loan and securities portfolios, and a reasonable liability structure, Bank's overall asset condition appears sound.

(2) *Capital Adequacy*

The examination report disclosed ratios of adjusted capital to risk and total assets of 6.81 percent and 4.82 percent, respectively, and the invested asset ratio was 5.91 percent. Although the invested asset ratio averaged 7.18 percent during the 1974 call period, this ratio in comparison to the year-end and examination date figures declined significantly due to Bank's excellent deposit growth and only fair earnings coupled with a $195,000 dividend payout which presumably was used to support interest expenses incurred by principal shareholders in acquiring control of Bank through a series of purchases between 1972 and 1974. The examination report indicates that Bank's capital is inadequate; moreover, the Comptroller's office further advised management in a letter dated May 5, 1975, that Bank's capital position was deficient. However, no specific dollar amount was requested in view of management's intention to form a bank holding company. Applicant's management is aware of Bank's capital deficiency and has made a commitment to infuse $1.5 million within one year through a capital note sale to its own shareholders and to depositors of Bank.[3] This proposed infusion would significantly im-

[3] The capital notes will mature in 15 years with an interest rate commensurate with the current bond rate in effect at the time of offering, and will be issued in minimum denominations of $5,000.

prove Bank's capital ratio to the following minimally acceptable levels:

Capital Ratios	Examination 3-31-75	$1.5 Million Capital Injection
Adjusted Capital/Risk Assets	6.81	9.35
Adjusted Capital/Total Assets	4.82	6.67
Equity Capital/Invested Assets	6.25	8.71

The currently low capital ratios reflect the cumulative effect of many years of litigation fees and substantial loan charge-offs, which reportedly resulted from questionable loans and advances made to certain directors (and their interests) no longer associated with Bank. Recent personal discussions with deputy regional administrator of National banks, revealed that the Comptroller's office strongly feels (as also indicated in the report of examination) that Mr. Harold Cohn, Bank's chief executive officer, has successfully converted Bank's operation from a chronic problem condition beset with excessive asset classifications, to the present favorable posture. Although Mr. Cohn has served in his present capacity through some of the problem years, his influence was limited due to lack of control ownership which was later successfully achieved in 1973 through a voting trust, created by present principal shareholders. Further discussions with the Comptroller's office indicated that the proposed $1.5M equity infusion would be sufficient, particularly since it represents a 41.1 percent increase in Bank's adjusted capital base as of the examination date. Inasmuch as Applicant will be highly leveraged since the proposed capitalization program will be effected through the sale of debt instruments which are in addition to the 84.4 percent acquisition cost of Bank, future prospects for Bank's capital growth through earnings retention appear reasonable. Applicant's apparent lack of financial flexibility is mitigated by Bank's sound asset condition and the unqualified support and recommendation of the Comptroller's office, which is a direct result of the effectiveness, responsibility and determination of Bank's executive leadership.

In view of the above, we feel that Bank's capital position will be marginally adequate upon completion of the committed capital support program, and that prospects for additional capital enhancement over the 12-year debt amortization period appear reasonably favorable.

(3) *Earnings Prospects*

The following ratios, expressed as a percentage of average total assets, compare the operation of Bank with those of Seventh District member banks of comparable deposit size in Illinois for the indicated calendar years:

	1972		1973		1974	
	Bank	Avg.	Bank	Avg.	Bank	Avg.
Total Operating Income	5.24	5.95	6.00	6.45	6.37	7.18
Net Income After Taxes	.58	.77	.67	.79	.59	.76

Bank's earnings have been traditionally low due in part to legal fees, litigation settlements, and loan charge-offs, which were primarily attributable to actions taken by certain directors no longer associated with Bank; since 1966 the expenses aggregated approximately $2 million. 1974 earnings, which represented a .87 percent return on average total assets before taxes and security gains or losses, declined from the previous year because of the charge-off of $1.5 million in defaulted capital notes of Franklin N.Y. Corp. Analysis of pro forma earnings as of June 30, 1975, indicates that Bank (after adjustment for taxes) has earned by mid-year a .59 percent return on $81.5 million in total assets. Extending this rate of return to include the second half of this year, it is reasonably evident that Bank may earn well above one percent for the entire year. This earnings performance and potential is directly related to substantial deposit growth which resulted after Bank established a drive-in facility in a nearby shopping center in 1974. Using comparative data supplied by Applicant, Bank's deposits increased 26.4 percent between June 1974 and 1975, and 16.4 percent for the first half of 1975. Although deposit growth may eventually strain Bank's capital requirements despite the proposed $1.5 million equity infusion

by Applicant, Bank's current and potential earnings are favorable enough (in view of Bank's sound asset structure and its responsible and capable management) to mitigate any serious doubts about future capital adequacy.

(4) *Management*

Directors and officers—Bank's board of directors consists of nine members, three of whom serve as officers along with two other individuals. Chief Executive Officer Harold Cohn, age 58, has served with the Bank for the past nine years and has, in the opinion of the Comptroller's office, successfully converted Bank's operation from a chronic problem condition to the present favorable posture. Vice President and Comptroller Ralph E. Kuhlman, age 39, supervises Bank operations, and Executive Vice President Joseph E. Franks, age 45, assisted by Vice President John Biordi, are charged with supervision of the lending area. Bank's management has been traditionally weak in the lending area; consequently, a strong effort is currently being undertaken to secure the services of a knowledgeable lending officer. Since the previous report of examination, four new individuals have been elected to serve on the board, who for the most part are replacing former directors that have sold their voting interests to Applicant's principal shareholders. Despite the extensive restructuring, the directorate appears attentive and active, and their collective efforts are demonstrated in the excellent growth and earnings pattern Bank is currently experiencing.

Although Bank's executive leadership, along with the controlling interests comprising the voting trust, have been associated with Bank during its problem years, the consolidated effect of their individual control represented less than ten percent of Bank prior to May 1972. Prior to present control (voting trust formed in 1973 controlled 57.4 percent, and currently controls 86.1 percent), Bank's operations were influenced by directors' disharmony, particularly those of the Projansky interests which included the singular interest of Bank's former

chairman, Irwing Projansky. During 1967 Mr. Projansky, and Bank's former president, Arthur Keller, among others, were indicted as defendants in a stock fraud and conspiracy case involving Hercules, Galion Products, Inc., which was listed on the American Stock Exchange. Bank at that time had 68.6 percent of its assets classified (excluding special mention), and merited a rating. Since then, through the leadership of Mr. Cohn, Bank's financial integrity and public confidence in this institution have been gradually restored.

In view of the above, Bank's management is considered to be satisfactory.

(5) *Future Prospects*

Bank is located in Lincolnwood, Illinois, which has a population of approximately 14,000, comprised basically of middle to high income residents. Although Bank is adjacent to the city of Chicago, about twelve miles northwest of the "Loop," management feels its primary trade area extends only in a two mile radius, encompassing 35,000 to 40,000 residents of similar financial status as those in Lincolnwood. A few manufacturing firms are in the community, and the service and retail establishments are sufficient and convenient. With the opening of Bank's new drive-in facility in a nearby shopping center in March 1974, Bank experienced accelerated growth due to its excellent location.

Under present management, Bank's prospects for continued growth in deposits and earnings are considered favorable.

Applicant

(1) *Financial History and Condition*

History—Applicant was recently organized under the laws of the State of Illinois for the express purpose of becoming a bank holding company with respect to Bank. The corporation has not engaged in any business activities to date other than those coincidental to the organization and filing of the subject application.

Asset condition—Applicant's asset condition initially will be entirely dependent upon the condition of its proposed subsidiary Bank. As discussed previously, analysis of the latest report of examination disclosed Bank to have sound financial resources and satisfactory management. Moreover, upon completion of the $1.5 million capital improvement program committed by Applicant, Bank's capital position will be marginally adequate. Consequently, upon consummation of the proposed transaction, Applicant's asset condition would be considered satisfactory.

(2) *Capital Adequacy*

Capital funds in relation to liabilities—Upon consummation of the proposed acquisition, Applicant will have capital funds of $686,101 in relation to acquisition debt of $3,697,000, for a total debt to equity ratio of 5.39 to 1. Upon completion of the committed equity infusion of $1.5 million into Bank, the preceding ratio will increase to 7.57 to 1, since the proposed capitalization will be offset by a debt capital sale by Applicant in like amount. In view of the total amount of debt, Applicant appears to be highly leveraged with debt representing approximately 88 percent of pro forma assets for the first year. Applicant's debt servicing program is solely dependent upon Bank's earnings which are reasonably expected to slightly exceed one percent of average total assets for 1975, and thereafter. Initially, Bank's earnings are generally needed to offset inordinate deposit growth previously detailed; however, in anticipation of the subsequent leveling off of this deposit growth, dividend payouts should not seriously jeopardize Bank's capital structure. It is noted that Bank's presently inadequate capital position is being substantially strengthened (41 percent increase in Bank's adjusted capital structure as of the examination date), despite the fact that initial dividend payments may temporarily reduce the resulting capital ratios. Furthermore, Bank's sound asset condition and satisfactory management lend weight to our belief that Bank has reasonably favorable pros-

pects for future capital enhancement through earnings retention. Applicant does not intend to utilize Bank's earnings to retire its capital notes. As proposed, Applicant will derive funds from a capital stock sale upon the notes' maturity in 1990-91.

In view of the above, Applicant's capital position is considered to be marginally adequate.

(3) *Earnings Prospects*

Initially, Applicant's source of earnings would consist of dividends received from Bank in addition to a cash flow resulting from tax benefit derived in filing consolidated tax returns. The earnings prospects of Bank, which were previously discussed, are considered favorable and appear sufficient to retire Applicant's proposed acquisition debt. Consequently, Applicant's earnings prospects appear adequate.

(4) *Management*

Applicant's board of directors will consist of Chairman of the Board Dr. Fred Weitz, President Harold Cohn, Donald Kaufman and Harry Zaidenberg who are currently principal owners of Bank through a voting trust created for their collective benefit. (Additional details of Mr. Cohn's qualifications are discussed in the "Bank" section of this memorandum.)

Additionally, three senior officers of Bank will serve as officers of Applicant: Joseph E. Franks as vice president, Ralph Kuhlman as treasurer, and Robert J. O'Rourke as secretary. Control management is expected to carry on and exemplify the sound and conservative managerial philosophy developed in Bank; consequently, Applicant's management is considered to be similarly satisfactory.

(5) *Future Prospects*

Applicant's prospects depend upon consummation of the subject proposal and condition and prospects of its proposed subsidiary bank, which we regard to be satisfactory in view of Applicant's commitment to increase Bank's equity capital base by $1.5 million. Accordingly, Applicant's future prospects appear reasonably favorable.

Competition

Applicant is a non-operating corporation formed for the purpose of becoming a bank holding company through the acquisition of The First National Bank of Lincolnwood ("Bank"). With deposits of $65.7 million, Applicant will assume Bank's position as the 107th largest banking organization in the State of Illinois, accounting for 0.11 percent of the total state commercial bank deposits.* Bank, which is located in the Chicago area banking market, is the 67th largest of 286 commercial banks in the relevant market, and holds approximately 0.16 percent of the commercial bank deposits in the market. Since the proposal is essentially a restructuring of Bank's ownership whereby the ownership of Bank will be shifted from individuals to a corporation owned by the same individuals, consummation of the proposal would eliminate neither existing or potential competition, nor would it increase the concentration of banking resources in any relevant market. As such, competitive considerations involved in the proposal are viewed as being consistent with approval of the application.

Convenience and Needs Considerations

Area banking needs are believed adequately served at present. The proposed formation represents merely a restructuring of the ownership of Bank with no significant changes in Bank's operations or services offered to the public. However, certain limited public benefits should arise as a result of approval of the application. First, due to the infusion of $1.5 million in equity capital, Bank's legal lending limit will be increased thereby increasing the total amount which could be extended to any one borrower. Second, the increased flexibility afforded by the holding company form of organization will

* All banking data are as of December 31, 1974.

enable Applicant to provide financially related activities and services that could be beneficial to customers and depositors of Bank in the future. On balance, convenience and needs considerations are viewed as being consistent with approval.

FEDERAL RESERVE BANK OF CHICAGO
230 South La Salle Street
Chicago, Illinois 60690
(312) HA 7-2320

October 10, 1975

Clearing Unit
Division of Banking Supervision and Regulation
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Gentlemen:

This letter regards the application by First Lincolnwood Corp., Lincolnwood, Illinois ("Applicant"), for prior approval of action to become a bank holding company through the acquistion of 80 percent or more of the voting shares of The First National Bank of Lincolnwood, Lincolnwood, Illinois ("Bank"). Applicant's letter of September 4, 1975, incorporates certain changes related to the proposed capital injection into Bank and its effect upon the pro forma balance sheet, and certain other changes including amendments to the debt retirement schedule.

Acquisition debt to be incurred by the holding company remains at \$3,697,000. However, a previously proposed issue by Applicant of \$1,500,000 in 15-year capital notes, which was to have been downstreamed into Bank as equity, has been eliminated. Instead, Bank will sell \$1,000,000 of capital notes and \$1,071,875 worth of common stock (30,625 shares) to principals of Applicant; 15,756 of the new Bank shares would be exchanged by the principals for shares of Applicant. From conversations with Applicant's president, Mr. Harold Cohn, we understand that it is presently contemplated that no funds will be borrowed by principals of Applicant to acquire the shares. Dr. Fred Weitz, chairman of the Board, and principal shareholder of Applicant, plans to sell a motel, which would net him over \$300,000. The four principals of Applicant would subscribe to the additional shares in proportions similar to their present

ownership of Bank. If the principals do borrow, it would be from an unaffiliated source and the amounts involved would be small. No further details are available because no definite plans to borrow have been made.

As a result of the change, the total amount of capital to be injected into Bank has increased, but the amount of equity to be injected has decreased, which we regard as a slightly unfavorable aspect of Applicant's revised plans. However, in total, we do not believe the changes discussed in the letter significantly alter the proposal. The capital position of the Bank would remain less than adequate but substantially improved. Principals of Applicant incurred substantial debt to acquire control of the Bank from the Projansky group, which was responsible for its earlier problems. Since becoming influential in managing the affairs of Bank, principals of Applicant have substantially improved its overall condition. Applicant's projections of Bank growth and earnings, which appear realistic, indicate that Bank's capital should not be further impaired during the debt retirement period. In the long run, prospects for continued improvement in Bank's overall condition appear favorable. Accordingly, we continue to recommend approval of the application.

The September 4, 1975, letter from Applicant also described the history of present management's acquisition of control of Bank from the Projansky group. According to the letter, discussions with this Reserve Bank led the new management of Bank to believe that a holding company application would receive favorable consideration. Present members of the Reserve Bank Staff do not recollect giving such assurances, although one of the officers who may have discussed the proposal with representatives of Applicant has retired. Considering that principals of Applicant were attempting to acquire control from the Projansky group, which had been responsible for the bank's earlier problems, we would not consider it unusual that some encouragement may have been offered; nevertheless, we feel certain that no firm commitments would have been made. This aspect of

Applicant's letter was discussed with Mr. O'Rourke who consulted Mr. Harold Cohn. Mr. Cohn's memory of the specifics of the conversation is reportedly vague, but he also indicated that no firm commitments were made.

Very truly yours,

/s/ Franklin D. Dreyer
Franklin D. Dreyer
Vice President

[SEAL]

THE ADMINISTRATOR OF NATIONAL BANKS
Washington, D.C. 20219

July 24, 1975

Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Re: Application by First Lincolnwood Corporation, Lincolnwood, Illinois, to become a bank holding company and to acquire The First National Bank of Lincolnwood, Lincolnwood, Illinois

Gentlemen:

This is in reply to a letter of June 3, 1975, submitted to this Office by the Federal Reserve Bank of Chicago requesting our views and recommendations pursuant to Section 3 of the Bank Holding Company Act of 1956 (as amended) concerning the subject proposal.

First Lincolnwood Corporation, Lincolnwood, Illinois, the applicant, wishes to become a registered bank holding company and has submitted an application to acquire The First National Bank of Lincolnwood, Lincolnwood, Illinois. The applicant has no previous financial history and at present does not operate any subsidiaries.

The First National Bank of Lincolnwood, Lincolnwood, Illinois, the proposed subsidiary, was organized in 1955 and currently has deposits of $65.7 million. Lincolnwood is located adjacent to the City of Chicago approximately 12 miles northwest of the Loop. The service area of the proposed subsidiary extends in a two-mile radius and includes light manufacturing firms and service and retail establishments.

The proposed subsidiary competes in Lincolnwood with the $70.2 million deposit Bank of Lincolnwood. Additional competition is provided by National Bank of Albany Park in Chicago with deposits of $95.5 million as well as by the large Chicago-based commercial banks.

The proposed transaction is basically a corporate reorganization whereby control of the subject bank will be transferred from individual ownership to a corporation owned by the same individuals. Because on one operating bank is involved, this acquistion, in itself, will have no effect on competition in Lincolnwood.

The important consideration in evaluating this application is the financing of the acquisition. The present proposal, which involves both a share exchange and the assumption of existing liabilities, would require the applicant to incur substantial long-term debt. In addition the applicant proposes to place $1.5 million in capital notes in the local area and to use the proceeds to augment the equity capital of the bank. The source of funds for servicing this debt will be dividends received from the resulting subsidiary. In order to sustain the necessary level of dividend payout and to provide internally generated capital for projected growth, the recent earning performance of the bank will have to be improved. The record of present management in turning operations around during the past five years offers encouragement that this improvement can be accomplished.

Consummation of the proposed transaction under the present arrangements will result in the transfer to the applicant of a large portion of the debt burden of those stockholders who are financing their purchases of First National Bank of Lincolnwood stock. The beneficiaries of this transfer will be the four principals who control the bank through a voting trust agreement and who will be relieved from their primary obligations on outstanding loans.

Accordingly, it is the view of this Office that the acquisition of The First National Bank of Lincolnwood should be denied until its capital, as distinguished from that of the holding company, is strengthened.

Very truly yours,

/s/ [Illegible]
Acting Comptroller of the Currency

[LOGO]

Corner of Lincoln and Devon

Telephone: Chicago 583-4800 Lincolnwood 676-3000
Lincolnwood, Illinois

Harold Cohn
President & Vice Chairman of Board

September 4, 1975

Board of Governors
of the
Federal Reserve System
Washington, D. C. 20551

Attn: Clearing Unit
Division of Banking Supervision and Regulation

Gentlemen:

In response to written correspondence dated July 28, 1975 and August 8, 1975 by Mr. John N. Lyon, Assistant Director, Division of Banking Supervision and Regulation, and in accordance with discussions held in meeting with members of your staff on August 18, 1975, the First Lincolnwood Corp. hereby submits pertinent information and amendments to it's application to acquire shares of the First National Bank of Lincolnwood, Lincolnwood, Illinois.

It is the Applicant's intention to eliminate the $1,500,000.00 Capital Note issue by the First Lincolnwood Corp. The applicant intends to enhance the Bank's Equity Capital as follows:

a.) Within three to six months after approval of the application $1,000,000.00 of Capital Notes of the First National Bank of Lincolnwood will be sold. These Notes will be issued in minimum denominations of $5,000.00 each with a maturity not to exceed 15 years bearing interest at a rate competitive with the current money market at the time of issue. The above mentioned Notes will have a minimum maturity of seven years. The Applicant feels that present customers of the Bank will be attracted to the Capital Note issue thereby decreasing the time deposits of the First National Bank of Lincolnwood and consequently only increasing the Bank's expenses by approximately $20,000.00 annually which would represent a savings of $100,000.00 per annum to the proposed Holding Company.

(b) Within three to six months after approval of the application $1,071,875.00 of common stock of the First National Bank of Lincolnwood is proposed to be sold to enhance the Equity Capital of the Bank. 15,756 shares of the proposed additional common stock issue will be purchased by the principal parties involved in this transaction and exchanged for shares of the First Lincolnwood Corp. so that a minimum of 80% ownership can be maintained. Debt incurred to date of application will not be increased due to the acquisition of the above described shares of common stock of the First National Bank of Lincolnwood.

The following amended statements are attached giving effect to changes proposed in item a and b:

(1.) Projection of Statement of Condition—First National Bank of Lincolnwood.

(2.) Projection of Income and Expenses—First National Bank of Lincolnwood.

(3.) Pro Forma Statement of Revenue and Expenses and Debt Amortization—First Lincolnwood Corp.

(4.) Notes to Financial Statements

(5.) Pro Forma Statement of Estimated earnings First Lincolnwood Corp.—year ended 12-31-76

(6.) Pro Forma Balance Sheet—First Lincolnwood Corp.

The special dividend as outlined on page five (5) of the "Confidential Section" of the application is no longer applicable since the application does not fall under the delegated authority of the Federal Reserve Board in Chicago. Total dividends for 1975 have been reduced from $830,000.00 to $449,000.00 to maintain proper capital to deposit ratios for the Bank. The remaining portion of $381,000.00 has been spread over the twelve (12) year repayment program of debt retirement.

The applicant hereby states that the debt incurred by the principals involved is guaranteed by said principals. The principals will continue to guaranty this indebtedness when it is transferred to the First Lincolnwood Corp.

The applicant wishes to expand upon it's Confidential reasons for this transaction as previously outlined on page six (6) of the "Confidential Section" of the application. This perhaps is the most important response to our various communications and meetings. It enables the applicant to acquaint the Board with the serious problems that have been rectified under the direction of the present management of the Bank and the principal parties involved in this transaction.

It is felt by all of the parties involved in this transaction that the formation of the First Lincolnwood Corp. is in the best interest of the Bank and the majority and minority shareholders in that the debt transfer to the Holding Company will remove the burden of excessive taxation from the principal parties, and assure the continuity of responsible Bank Management. The minority shareholders of course are of important concern to everyone. These shareholders will most definitely benefit from the continuing growth of their investment while benefiting from the projected dividend as outlined in attached statements.

Please be advised that the amendments outlined in the contents of this letter were discussed in meeting with Messrs. Thomas De Shazo and Robert Bloom of the Office of the Comptroller of the Currency on August 18, 1975. Mr. De Shazo and Mr. Bloom indicated that these amend-

ments were most agreeable with them and that the position of the Comptroller's Office would be favorable towards the subject application.

The applicant wishes to thank the Board for it's consideration and the opportunity to reply to the Comptroller's comments of July 24, 1975. Please feel free to call upon the applicant at your convenience for any additional information that may be required.

Sincerely,

/s/ Harold Cohn
HAROLD COHN
President

CC: Federal Reserve Bank in Chicago
Comptroller of the Currency, Washington, D.C.
Regional Administrator, Comptroller of the Currency, Chicago,
Department of Justice, Washington, D.C.—Attn: Antitrust Div.

PROJECTION OF STATEMENT OF CONDITION
(HUNDREDS OMITTED)

ASSETS & LIABILITIES	DEC. 31, 1975	DEC. 31, 1976	DEC. 31, 1977	DEC. 31, 1978	DEC. 31, 1979	DEC. 31, 1980	DEC. 31, 1981	DEC.31, 1982	DEC. 31, 1983	DEC. 31, 1984	DEC. 31, 1985	DEC. 31, 1986
ASSETS:												
CASH & DUE FROM BANKS												
INVESTMENTS	8,777	9,655	10,621	11,682	12,851	14,136	15,550	17,105	18,815	20,697	22,767	25,044
TAXABLE	19,671	21,639	23,801	26,183	28,800	31,681	34,848	38,331	42,165	46,382	51,020	56,122
NON TAXABLE	10,401	11,441	12,585	13,843	15,228	16,750	18,425	20,268	22,295	24,524	26,976	29,674
LOANS & DISCOUNTS	35,641	39,205	43,126	47,438	52,182	57,400	63,140	69,454	76,399	84,039	92,443	101,687
FIXED ASSETS	1,285	1,413	1,555	1,710	1,881	2,069	2,276	2,504	2,754	3,029	3,332	3,665
OTHER ASSETS	1,154	1,269	1,396	1,536	1,689	1,858	2,044	2,249	2,474	2,721	2,993	3,292
TOTAL ASSETS (1)	76,929	84,622	93,084	102,392	112,631	123,894	136,283	149,911	164,902	181,392	199,531	219,484
LIABILITIES:												
DEPOSITS (2)												
DEMAND	26,742	29,492	32,529	35,843	39,510	43,517	47,940	52,784	58,107	63,798	70,178	77,196
TIME	42,199	46,686	51,549	56,879	62,665	69,009	75,914	83,483	91,754	100,964	110,924	121,821
TOTAL DEPOSITS	68,941	76,178	84,078	92,722	102,175	112,526	123,854	136,267	149,861	164,762	181,102	199,017
OTHER LIABILITIES	1,808	1,989	2,187	2,406	2,647	2,912	3,203	3,523	3,875	4,263	4,689	5,158
RESERVES ON LOANS (3)	285	314	345	380	417	459	505	556	611	672	739	813
STOCKHOLDERS EQUITY:												
CAPITAL NOTES*	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1.000
CAPITAL	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750
SURPLUS	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750
UNDIVIDED PROFITS	1,395	1,641	1,974	2,384	2,892	3,497	4,221	5,065	6,055	7,195	8,501	9,996
TOTAL EQUITY CAPITAL (4)	5,895	6,141	6,474	6,884	7,392	7,997	8,721	9,565	10,555	11,695	13,001	14,496
TOTAL LIABILITIES	76,929	84,622	93,084	102,392	112,631	123,894	136,283	149,911	164,902	181,392	199,531	219,484

(NOTES TO FINANCIAL STATEMENTS ARE ATTACHED)

CAPITAL NOTES PROPOSED TO BE ISSUED BY THE FIRST NATIONAL BANK OF LINCOLNWOOD WITHIN 3 TO 6 MONTHS AFTER APPLICATION IS APPROVED. CAPITAL NOTES WILL BE ISSUED IN MINIMUM DENOMINATIONS OF $5,000,00 EACH WITH A MATURITY NOT TO EXCEED 15 YEARS BEARING INTEREST AT A RATE COMPETITIVE WITH THE CURRENT MONEY MARKET AT THE TIME OF ISSUE.

PROJECTION OF INCOME & EXPENSES
(HUNDREDS OMITTED)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
INCOME:												
LOANS	2,588	2,846	3,131	3,445	3,787	4,167	4,584	5,044	5,648	6,102	6,712	[illegible]
INVESTMENTS TAXABLE	1,306	1,419	1,537	1,677	1,830	1,995	2,176	2,374	2,591	2,825	3,108	[illegible]
INVESTMENTS NONTAXABLE	421	480	553	622	699	786	883	992	1,113	1,249	1,374	1,511
SERVICE CHARGES - DEP.ACCTS	140	154	169	186	205	225	248	273	300	330	363	399
OTHER INCOME	285	314	345	380	417	460	506	556	611	672	739	813
TOTAL INCOME	4,740	5,213	5,735	6,310	6,938	7,633	8,397	9,239	10,163	11,178	12,296	13,525
ENSES:												
SALARY & STAFF BENEFITS	950	1,045	1,150	1,265	1,391	1,530	1,684	1,852	2,038	2,241	2,465	2,712
INTEREST	1,952	2,152	2,374	2,618	2,884	3,179	3,504	3,861	4,253	4,684	5,158	5,680
OCCUPANCY	123	136	149	164	180	198	218	240	264	291	320	352
DEPRECIATION	70	77	85	93	103	113	124	137	150	165	182	200
OTHER	762	838	922	1,015	1,116	1,227	1,350	1,486	1,634	1,797	1,977	2,175
INT.CAPITAL NOTES	80	30	80	80	80	80	80	80	80	80	80	80
TOTAL EXPENSES	3,937	4,328	4,760	5,235	5,754	6,327	6,960	7,656	8,419	9,258	10,182	11,199
OPERATING INCOME:												
BEFORE TAX	803	885	975	1,075	1,184	1,306	1,437	1,583	1,744	1,920	2,114	2,326
* TAXES ON OPERATING INCOME(5)	147	52	72	99	126	156	184	215	248	279	326	376
NET OPERATING INCOME	656	833	903	976	1,058	1,150	1,253	1,368	1,496	1,641	1,788	1,950
DISPOSITION OF NET INCOME:												
DIVIDENDS	449	587	570	566	550	545	529	524	506	501	482	455
NET INCOME AFTER DIVIDENDS	207	246	333	410	508	605	724	844	990	1,140	1,306	1,495

* IT IS ANTICIPATED THAT APPLICANT WILL FILE A CONSOLIDATED INCOME TAX RETURN WITH THE BANK
TAXES ARE COMPUTED AT 48%, NET OF HOLDING COMPANY INTEREST EXPENSE AND NONTAXABLE INVESTMENTS
(NOTES TO FINANCIAL STATEMENTS ARE ATTACHED)

PRO FORMA STATEMENT OF REVENUE & EXPENSES & DEBT AMORTIZATION
(HUNDREDS OMITTED)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
REVENUE:												
DIVIDENDS	39	470	456	453	440	436	423	419	405	401	386	364
TOTAL REVENUE	39	470	456	453	440	436	423	419	405	401	386	364
DISBURSEMENTS:												
BANK LOAN - PRIN. REDUCTION *	-0-	315	315	325	325	335	335	345	345	355	355	347
INTEREST EXPENSE	74	296	271	245	220	193	167	140	112	85	56	28
MISC. EXPENSE	1	1	1	2	2	2	3	3	3	4	4	4
INCOME TAX CREDIT ***	(36)	(142)	(131)	(119)	(107)	(94)	(82)	(69)	(55)	(43)	(29)	(15)
TOTAL DISBURSEMENTS	39	470	456	453	440	436	423	419	405	401	386	364
OUTSTANDING BALANCE BANK LOAN	3,697	3,697	3,382	3,067	2,742	2,417	2,082	1,747	1,402	1,057	702	347
* PRINCIPAL REDUCTION	-0-	315	315	325	325	335	335	345	345	355	355	347
	3,697	3,382	3,067	2,742	2,417	2,082	1,747	1,402	1,057	702	347	-0-

*** INTEREST AND EXPENSES TIMES AN ASSUMED TAX RATE OF 48%

IT IS ANTICIPATED THAT APPLICANT AND BANK WILL FILE A CONSOLIDATED INCOME TAX RETURN.

(NOTES TO FINANCIAL STATEMENTS ARE ATTACHED)

AMENDMENT TO PAGE 5— "CONFIDENTIAL SECTION"

NOTES TO FINANCIAL STATEMENTS

Net operating income before taxes is computed at approximately 1.05% of total assets. The net operating income ratio of 1.05% of total assets represents a higher ratio than previously experienced primarily due to a decrease in legal expenses previously incurred. Legal expenses incurred during the year from 1966 to 1974 total $470,-446.38 which is well above the normal expense incurred in the course of business. Charged off loans, net of recoveries for the same period total $1,287,499.58. Losses suffered due to the settlement of certain litigation during this period total $191,000.00. The above mentioned losses and legal expenses total $1,948,945.96. Responsibility for losses incurred during this period rests with previous management as evidenced by comparison of Regulatory agency examination reports for the period discussed. It is current managements opinion that these losses and expenses are non-recurring and that for this reason the Bank's earnings and subsequently it's equity capital will be enhanced considerably. Assets have been redistributed to show an increase in the Municipal Bond Portfolio and an upgrading of tax exempt yields in the future.

Generally income and expense totals have been computed in accordance with published operating ratios of member banks of the Seventh Federal Reserve District for banks with deposits between $50,000,000.00 and $100,000,000.00.

(1) Asset growth represents an approximate increase of 10% per year.

(2) Demand Deposit and time deposit ratios to total deposits represent deposit trends of the First National Bank of Lincolnwood based upon previous years.

(3) Reserve for loan losses is computed at .8% of Loans and Discounts.

(4) Total Equity Capital reflects the infusion of $1,000,000.00 from the sale of Capital Notes by the First National Bank of Lincolnwood and the sale of $1,071,875.00 of additional common stock of the First National Bank of Lincolnwood less a $400,000.00 dividend to be declared to the shareholders of the First National Bank of Lincolnwood before the proposed acquisition to enable the principal parties to bring the interest current on the indebtedness that they have incurred. The sale of Capital Notes and additional common stock of the First National Bank of Lincolnwood is anticipated to take place within three to six months after the proposed acquisition.

(5) Income tax liability reflects consolidation of First Lincolnwood Corp. and The First National Bank of Lincolnwood.

AMENDMENT TO PAGE 7—
"CONFIDENTIAL SECTION"

FORM F.R. Y-1

EXHIBIT C—FINANCIAL & MANAGERIAL INFORMATION

Pro Forma Statement of
Estimated Earnings
First Lincolnwood Corp.
Year ended 12-31-76

Income:

Dividends		$470,000.00
Cash Flow from Subsidiary— Re: Tax effect of consolidation		142,000.00
	Total	$612,000.00
Interest Expense		$296,000.00
Prin. Reduction on Note		315,000.00
Misc. Expense		$612,000.00

AMENDMENT TO PAGE 31—"OPEN SECTION"

FORM F.R. Y-1

EXHIBIT C—FINANCIAL & MANAGERIAL INFORMATION

Pro Forma Balance Sheet
First Lincolnwood Corp.

Assets

Cash (1)	$ 3,500.00
Investment in Subsidiary: (2)	
Capital Stock—* (At average cost)	
1st National Bank of Lincolnwood (80%)	4,931,061.00
	$4,934,561.00
Liabilities & Stockholders Equity:	
Note Payable (3)	$3,697,000.00
Capital (1.00 par value)	140,000.00
Undistributed Equity in Company & Subsidiary	1,097,561.00
	$1,237,561.00
Total Liabilities & Stockholders Equity	$4,934,561.00

(1) Cash represents amount paid in as a minimum to form a corporation.

(2) Investment in subsidiary shown on 140,000 shares. 124,244 shares at an average cost of $35.25 per share plus an additional 15,756 shares at a cost of $35.00 per share. These additional shares are proposed to be acquired and exchanged for shares of the First Lincolnwood Corp. so that a minimum of 80% ownership of the Bank may be maintained. Investment in subsidiary carries an allocated premium of $1,235,061.00 at December 31, '74. Book value of common stock of the First National Bank of Lincolnwood at 12/31/74 is stated at $26.40 per share.

(3) Note to Central National Bank of Chicago at current prime rate to be retired over a 12 year period as illustrated in the Pro Forma Statement of Revenue and expenses and debt amortization of First Lincolnwood Corp.

[SEAL]

THE ADMINISTRATOR OF NATIONAL BANKS
Washington, D.C. 20219

Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

September 26, 1975

Re: Application by First Lincolnwood Corporation, Lincolnwood, Illinois, to become a bank holding company and to acquire The First National Bank of Lincolnwood, Lincolnwood, Illinois

Gentlemen:

This letter is in reference to our former letter of July 24, 1975, in which this Office recommended disapproval of the subject application. Disapproval of the earlier application was recommended because the bank's capital was considered inadequate and its earnings appeared insufficient to support the dividend payout necessary to service the debt incurred while generating capital for growth.

The present proposal decreases the obligation of the holding company by $1,500,000 and the capital of the bank will be increased by $2,000,000 in equal portions of equity and debt. This arrangement is superior to the original proposal as it will strengthen the ownership support aspect over the next decade. With the reduced dividend requirements and capital increase planned, more flexibility and strength is provided.

Accordingly, it is the view of this Office that the proposed revised transaction should be approved.

Very truly yours,

/s/ Robert Bloom
Acting Comptroller of the Currency

3(a)(1) APPLICATION REQUIRING BOARD ACTION
(Internal Target Date: December 7, 1975)

Federal Reserve District 7 Date December 3, 1975

By: First Lincolnwood Corp., Lincolnwood, Illinois ("Applicant").

For: Prior approval to become a bank holding company through the acquistion of 80 per cent or more of the voting shares of The First National Bank of Lincolnwood, Lincolnwood, Illinois ("Bank").

Acquisition debt of $3.7 million will equal 75% of purchase price and 123% of book value of shares to be acquired.

STATE AND MARKET DATA:	Bank
Total Domestic Deposits (as of 12/31/74)	$65.7 million
Rank/Per Cent of State Deposits	107/ .1%
Rank/Per Cent of Relevant Market	67/ .2%

FINANCIAL DATA:[1] Applicant (Pro forma)	Parent Company Only		Combined
	Stated Value	Net Asset Value	Net Asset Value
Total Assets	$4.9 million	$3.0 million	$79.2 million
Total Liabilities	$3.7 million	$3.7 million	$79.4 million
Stockholders' Equity	$1.2 million	$(.7 million)	$ (.2 million)
Total Liabilities/Equity	3 : 1	—	—

Bank to be Acquired	Call Rept. 9/30/75	Call Rept. 12/31/74
Invested Asset Ratio	5.3%	6.6%
Amt. to bring to 9%	$2.5 million [2]	$1.4 million
Amt. to bring to peer group mean of 10.0%	$3.1 million	$1.9 million
	Most Recent Exam	Prior Exam
Rate (Exam Date)	(3/75)	(4/74)

[1] Financial data does not reflect inclusion of proposed injections to Bank of $1.1 million in equity and $1.0 million in debt capital. If these injections were included Applicant would have a total liabilities/equity ratio of 1.7:1 on a stated basis, 14.8:1 on a net asset basis, and 101:1 on a combined basis.

[2] Bank's invested asset ratio would be 6.8 per cent with the proposed injections of $1.1 million in equity and $1.0 million in debt capital, reflecting a deficiency from 9.0 per cent of $1.5 million, and from 10.0 per cent of $2.1 million.

RECOMMENDATIONS:

Comptroller of the Currency—Denial (7/24/75) Appendix A; Approval (9/26/75) Appendix B
Department of Justice—None received
Federal Reserve Bank of Chicago—Approval
Supervision and Regulation Department—Approval
Research Department—Approval
Division of Research and Statistics—Denial
Division of Banking Supervision and Regulation—Denial

/s/ Bruce L. Brumbaugh
(Reviewer)

/s/ Kevin M. Raymond
(Analyst)

Board staff agrees with the Reserve Bank that the significant issue is Applicant's high degree of leverage which may strain Bank's capital, but staff does not agree with the Reserve Bank's analysis and recommendation and believes that the application should be denied.

COMMENTS ON ISSUE:

Applicant proposes to incur acquistion debt of $3.7 million. Board staff analysis indicates that Bank's capital ratios will be strained during amortization of this debt. This analysis assumes Bank's annual asset growth will be 10 per cent and that Bank's earnings will be 0.85 per cent of total assets.[3] Board staff projections assumed improved earnings capability of Bank from approximately 0.6 per cent of total assets for the past three years to the 0.85 per cent figure, which differs slightly from Applicant's average projected return of 0.92 per cent. Staff projections indicate that Bank's capital/asset ratio will remain below 6 per cent during the 12

[3] During the past three years banks in Illinois with deposits of $25-$100 million in size earned an average of $0.85 per cent of total assets.

years required to retire the $3.7 million acquisition debt. In our opinion the strain on Bank's earnings to service this $3.7 million debt, in itself, is sufficient to warrant denial of the application.

In addition, Applicant has stated that Bank plans to augment its capital accounts through the sale of $1.1 million in equity capital and $1.0 million in debt capital within three to six months of approval of this application. Applicant's principals have stated that they will purchase the additional $1.1 million equity and that customers of Bank will purchase the additional $1.0 million in debt capital. Other demands may be placed on Bank, as to definite plans for raising the $2.1 million of additional capital have been provided other than $300,000 which Applicant's Chairman expects to be made available from the sale of a motel for purchase of Bank stock. While Applicant's principals' financial statements reflect aggregate net worth of $3.0 million, a review of these financial statements indicates that they have limited amounts of liquid assets. Despite Applicant's principals stated intention not to use borrowed funds to provide additional capital for Bank, Board staff believes it is likely that debt may be used to make the capital contributions.

The addition of the $2.1 million of capital would raise Bank's 1975 year-end estimated total capital/total asset ratio from 5.2 to 7.4 per cent. However, amortization of the $1.0 million capital debt in addition to the parent's acquisition debt of $3.7 million would result in Bank's capital/asset ratio declining to 5.2 per cent in the twelfth year. If the additional $1.1 million in equity capital is also treated as debt, Bank's capital/asset ratio would decline to 4.8 per cent in the twelfth year.

Board staff views these ratios with concern. It is noted that under each amortization assumption, Bank's capital is strained by the debt incurred. In view of these ratios and the uncertainty as to the source of funds for the proposed injections, Board staff concludes that the proposal reflects limited financial flexibility and does not warrant approval. While present bank management is regarded as capable, it would appear desirable that

Bank's overall capital position should be materially improved and that financing arrangements for the proposed capital injections into Bank be made more definite.

OTHER COMMENTS:

The Reserve Bank states that Bank was a "problem" in 1967, and has been turned into a viable institution by present management. Board staff's review of Bank's examination reports from 1965 through 1975 indicates that the Comptroller of the Currency consistently viewed the overall condition of Bank as .
While management of Bank is presently viewed as satisfactory, Board staff does not believe that the improvements which present management has made ameliorates the capital problem.

Applicant asserts that loan charge-offs and legal expenses generally attributable to the actions of former management have cost the Bank $2.0 million since 1966. While these expenses were apparently not the fault of present management, Board staff believes they should not be cause for approving the instant application.

Applicant asserts that Applicant's principals, who controlled 57 per cent of Bank in 1973, bought out the shares of Bank held by Mr. Irving Projansky, an alleged undesirable figure, who had been Chairman/President of Bank in the late 1960's.[3] Applicant states that this purchase resulted in additional debt of $1.5 million, and was done after consulting with the Comptroller of the Currency and the Federal Reserve Bank of Chicago (Appendix C, page 4). Applicant states it "felt assured that a holding company application would be met with

[3] Mr. Projansky has since been imprisoned for his fraudulent activities while associated with Bank. Applicant's current Chairman, Dr. Weitz, was indicted in connection with these activities but charges were dismissed apparently because of a lack of evidence. Dr. Weitz was suspended by the Comptroller of the Currency as a Bank director from 1967-1972 for the duration of the charges, and was re-instated after the charges were dismissed. According to the application, Dr. Weitz would own 40 per cent of Applicant's shares after consummation.

favorable comments by the governing bodies mentioned due to the excellent examination reports and the recent fine reputation of the Bank." Officials of the Chicago Regional Administrator's Office and the Reserve Bank cannot document any specific suggestions for this purchase (Appendix D, page 2), but both feel such a suggestion would have been possible at that time. Board Staff believes that the purchase had a desirable objective, although 57% of Bank's stock was already controlled by principals of Applicant, compared to the Projansky group block of 30 per cent. Moreover, the use of debt to accomplish the purchase would have been a decision of the individuals involved, and must be serviced from Bank earnings. That debt is proposed to be assumed by Applicant.[4]

The Comptroller of the Currency, in a letter to the Board of July 24, 1975, recommended denial of the application based on the magnitude of the debt involved and low capital position of Bank. Applicant met with the Comptroller's Office in Washington, and agreed to modify the proposal, eliminating a $1.5 million note issue which was to have been downstreamed to Bank as equity capital, and having Bank raise $2.1 million in debt and equity capital directly. Also, as part of the original proposal, Applicant's interest would have required special dividends from Bank of $830,000 for 1975. The modified proposal calls for dividends of $449,000, of which $433,000 have been paid as of August 28, 1975. These dividend requirements for 1975 represent a sharp increase from $195,000 reported for 1974. Board staff met with Applicant and indicated to Applicant that its case was marginal due to the overall debt involved and capital position of Bank. The Comptroller has since recommended approval based on the modified proposal. However, Board staff does not believe that the modification

[4] Board staff also notes that the purchase of Projansky group interests in Bank gave Applicant's principals over 80 per cent ownership which would ultimately result in favorable tax considerations for Appellant. Mr. Projansky's individual ownership of Bank shares was less than 10 per cent.

would bring Bank's capital situation to an acceptable level.

Board staff concludes that approval of this application is not consistent with the Board's current posture on bank capital and liquidity.

VOTING TRUST AGREEMENT

THIS AGREEMENT is made on the undersigned date between certain stockholders of the FIRST NATIONAL BANK OF LINCOLNWOOD, a national banking corporation, (hereinafter called the Bank) who shall become parties to this Agreement by signing their names hereto or by acquiring voting trust certificates, as herein provided, herein called the Stockholders, and Joseph P. Stelzer, Donald Kaufman, Harry Zaidenberg, and George B. Collins, herein called the Trustees.

The parties stipulate and recite that:

A. The Stockholders believe it to be essential to their interests to protect themselves against a piece-meal acquisition of shares by parties acting on behalf of interests the good intentions of which are not manifest to the parties and

B. The Stockholders believe that, by banding together in a voting trust agreement, a continuity of good management can be assured to the Bank, for the mutual benefit of the parties and the Bank, and

C. The Stockholders have requested the Trustees, in accordance with the authority found in Illinois Revised Statutes Chapter 32, Section 157.30a, to take the legal title to the shares deposited today, and such other shares as may be deposited during the term of the trust, the same to be held by them upon an active trust, and to act under the terms of this Agreement, until August 1, 1982, and the Trustees have agreed to such request;

For the reasons recited above, the Stockholders in consideration of their mutual promises do agree with each other and with the Trustees and the Trustees do agree with the Stockholders and with each other as follows:

SECTION ONE

TRANSFER OF STOCK TO TRUSTEES

The undersigned parties holding shares of the capital stock of First National Bank of Lincolnwood in the numbers set opposite the name of such stockholder shall deposit the certificates therefor, appropriately endorsed, with the Trustees, for transfer into the name of the Trustees. Upon the making of such deposits, all shares represented by the stock certificates so deposited shall be transferred upon the books of the First National Bank of Lincolnwood into the names of the Trustees, who are hereby authorized to cause such transfers, and also to cause any further transfers of the shares to be made which may become necessary by reason of any changes which may occur in the persons holding the office of Trustee. The Trustees shall also have the right, in connection with any pledge of said shares, to allow the transfer thereof to a nominee for a lender, with retention of voting rights in the Trustees until default. Each shareholder shall receive in exchange for such deposit voting trust certificates reciting such deposit, in the form provided for herein, with one unit of the voting trust being issued for each share deposited. The holders of said units of this voting trust shall be referred to herein as "Unitholders".

SECTION TWO

TRUSTEE'S CONTROL OVER STOCK

During the term hereof, the Trustees shall possess the legal title to such shares deposited, including the right to vote in person or by proxy in respect to any and all such shares, it being however, understood that the Trustees will execute an order upon the First National Bank of Lincolnwood to pay the dividends on the shares held in trust directly to the unitholders under this voting trust, in accordance with the ownership of said units as shown on the records of the voting trust. The Trustees may also contract with any lender upon the shares held in trust for the payment of all or any part of any such dividend direct to such lender. Any such dividend order shall be executed by the Trustees only upon the written direction of the unitholder involved.

SECTION THREE

VOTING TRUST CERTIFICATE

The Trustees do hereby promise and agree with the stockholders and with every unitholder of this trust that from time to time upon request they will cause to be issued to the several stockholders in respect of all stock deposited by them certificates for units in substantially the following form:

VOTING TRUST CERTIFICATE

FIRST NATIONAL BANK OF LINCOLNWOOD

No. .... units

This certifies that .... has deposited ...... shares of the capital stock of the above-named First National Bank of Lincolnwood each with the Trustees under an agreement between Joseph P. Stelzer, Donald Kaufman, Harry Zaidenberg and George B. Collins, Trustees, and certain stockholders of the Bank, which agreement was entered into on ...., 1972. This certificate and the interest represented thereby is transferable only on the books of the Trustees upon the presentation and surrender thereof. The holder of this certificate takes it subject to all the terms and conditions of the aforesaid agreement between the Trustees and certain stockholders of the corporation, and becomes a party to the agreement, and is entitled to the benefits thereof.

In witness whereof, the Trustees have caused this certificate to be signed on ...., 19...

(Signatures of trustees)

SECTION FOUR

ADDITIONAL STOCK

From time to time after this Agreement shall have taken effect, the Trustees may at their option receive any additional shares of the capital stock of First National Bank of Lincolnwood upon the terms and the conditions of this Agreement, and in respect of all such shares so received, the Trustees will issue and deliver certificates similar to those above-mentioned, and those depositing shareholders shall thereafter be parties to this Agreement by reason of their acceptance of a voting trust certificate or certificates.

SECTION FIVE

SALE OF STOCK AND CERTIFICATES BY STOCKHOLDERS

During the term of this Agreement the unitholders will not have possession of the shares of which they are the equitable owners. The unitholders will be at liberty to deal with Trustees' certificates by sale, or in any other manner, without the prior approval or consent of the Trustees, subject to any agreement which may be made as to the transfer of any such units. The parties depositing stock contemplate that there may be such agreements, and it is, therefore, agreed that the Secretary of this voting trust will maintain a file of all such agreements at the offices of the voting trust, and that a copy of each such agreement will be deposited with the Secretary.

SECTION SIX

SALES OF ALL STOCK BY TRUSTEES

During the period of this trust agreement, the Trustees shall have the power to sell shares held in the trust provided that, prior to such sale, the Trustees receive, the

irrevocable and affirmative written permission of the holders of one-half of the outstanding voting trust units. All of the shares held by the Trustees must be included in any such sale, and each shareholder does hereby waive the right to have any shares excluded from such sale. Upon such sale, all shares shall be sold for the same price. In the event that the Trustees deem it wise to sell less than all of the shares at once, and in the event that the Trustees are acting under the irrevocable written instruction of the holders of two-thirds in number of the outstanding voting trust units, then the sale and the proceeds thereof shall be pro-rated on an equal basis among all the unitholders, and the voting trust shall remain in force as to the shares retained. The irrevocable consents required shall be limited in time to not more than one year and all consents accepted by the Trustees shall expire on the same day. In the event that a sale is made by a pledgee of the shares held by the voting trust, in accordance with a security agreement between unitholders and a lender, then no specific permission for such sale shall be required, and the unitholders do, by their acceptance of this agreement, agree that any such lender shall have such power of sale as the loan documents may grant.

SECTION SEVEN

DISTRIBUTION OF PROCEEDS OF SALE OF STOCK

In case of a sale at any time during the period aforesaid, the proceeds shall be distributed by the Trustees forthwith to and among the holders of trustee's certificates upon the surrender of the certificates. In the event the sale shall be of less than all the shares then held, said distribution of funds shall be made upon surrender of that portion of the units represented by the shares sold. In no event will the Trustees hold said funds beyond the time reasonably required to redeem the Trustee's certificates. In handling such redemption, the Trustees may discharge any debts against the stock sold before making such redemption as required by any loan instruments executed by any unitholder.

SECTION EIGHT

TERMINATION OF AGREEMENT

This Agreement shall terminate on August 1, 1982. Upon termination, pursuant to this section, and upon the surrender of the trustee certificates, the shares themselves shall be transferred into the names of the holders of the trustees' certificates, and delivered to such holders in the proportion of their respective holdings, and this Agreement shall then be at an end. In the event said shares are pledged then the shares shall be transferred upon the execution by the stockholder of appropriate hypothecation documents, and the obligation of the Trustees shall be considered satisfied upon the delivery to the stockholder of an amended collateral receipt from a lending institution, the stockholder expressly consenting to the hypothecation of said shares. This Agreement shall also terminate and be of no force and effect with respect to the sale or other disposition, after default, of any of the shares of stock pledged with the Harris Trust and Savings Bank or with respect to any other rights, options and remedies said Bank may have pursuant to the Pledge Agreement hereinafter referred to, including without limitation any sale involving said Bank as purchaser.

SECTION NINE

SALE OR PURCHASE OF STOCK OR CERTIFICATES BY TRUSTEES

Nothing in this Agreement shall deprive the Trustees as individuals of the privilege of selling or otherwise disposing of voting trust certificates belonging to them, or of purchasing additional certificates, or of purchasing additional stock and selling it, or of joining with others in the purchase of stock or certificates from themselves as voting trustees or otherwise.

SECTION TEN

TRUSTEES' COMPENSATION AND EXPENSES

The Trustees shall not be compensated for their services as such Trustees. The Trustees intend to contract with the First National Bank of Lincolnwood for transfer agent services, and into that the cost thereof shall be nominal, and shall be paid by the persons requiring the specific transfers of existing trust units.

SECTION ELEVEN

TRUSTEES' RESIGNATION

Any Trustee may at any time resign by delivering to the other Trustees his resignation in writing, to take effect upon delivery of a copy thereof to the secretary of the voting trust. No formal acceptance of the resignation shall be required.

SECTION TWELVE

TRUSTEES' VOTING RIGHTS

All questions arising between the Trustees shall from time to time be determined by decision of the greater number of those attending or giving a proxy for the meeting of the Trustees at which such action is to be taken, which proxy may include an instruction on how to vote on any particular issue or question, which instruction may be binding. Any person may be a proxy. The Trustees shall have the authority to establish their own rules of procedure.

SECTION THIRTEEN

RESIGNATION OF TRUSTEES AND FILLING TRUSTEE VACANCIES AND ADDING TRUSTEES

In the event that the position of any voting trustee becomes vacant for any reason, then that vacancy will

be filled as follows: The unitholders will elect a new voting trustee or trustees by a majority vote, with each unit-holder having a proportionate number of votes to the number of voting trust certificates held by him for each of the vacant trusteeships. The voting will be cumulative, in accordance with the procedure practiced for the voting of shares in Illinois corporations. All such successor trustees shall have all of the estate, title, rights and powers of an original voting trustee.

SECTION FOURTEEN

VOTING TRUSTEES' PROXIES

The voting trustees may vote stock of the First National Bank of Lincolnwood in person or by proxy.

SECTION FIFTEEN

VOTING TRUSTEES' LIABILITY

In voting the shares of stock or doing any act with respect to the control or management of the Bank or its affairs, as holders of the stock deposited hereunder, the voting trustees shall exercise their best judgment in the interest of the beneficiaries of the trust, and to the end that its affairs shall be properly managed. No voting trustee shall be liable for any error of judgment or mistake of law or other mistake, or for anything save only his wilful misconduct or dishonesty.

SECTION SIXTEEN

VOTING TRUSTEES DEALING WITH THE FIRST NATIONAL BANK OF LINCOLNWOOD

The voting trustees shall not be disqualified by their office from dealing or contracting with the First National Bank of Lincolnwood in any manner, and may serve as directors, officers or employees, attorneys, or agents of said Bank.

SECTION SEVENTEEN

VOTING RIGHTS OF TRUSTEES

The voting trustees shall have the same right to cast any vote on any question coming before the stockholders of the First National Bank of Lincolnwood which would inure to any stockholders holding stock in said Bank.

SECTION EIGHTEEN

PLEDGE OF SHARES HELD IN VOTING TRUST

It is expressly understood that the shares initially deposited in the voting trust (and identified in Exhibit A to the Pledge Agreement hereinafter referred to) are and remain subject to the lien and pledge of a Pledge and Security Agreement between certain of the undersigned and the Harris Trust and Savings Bank, dated as of ____________________, 1973 (the "Pledge Agreement") and the depositing stockholders authorize and direct the voting trustees to deliver such shares, duly endorsed for transfer by any three such trustees to the Bank all as provided for, and contemplated in, said Pledge Agreement and authorize and direct the voting trustees to join in said Pledge Agreement for the purpose of pledging and assigning to said Bank any right, title or interest that said voting trustees may have in said shares. The depositing stockholders further authorize any three of the voting trustees to deliver and deposit with the Bank the voting trust certificates issued on account of said pledged shares and agree to duly endorse for transfer such related certificates which shall become a part of the Pledged Securities, as defined in said Pledge Agreement, all on the terms and conditions as provided for therein. No depositing shareholder shall have any claim against any trustee by reason of any such pledge or loan. Any three voting trustees shall have the right and power to execute any documents required by any lender in order to effect the purposes of any loan against the shares held by such lender. The voting trust certificates representing any shares against which there is a loan shall be stamped with the legend "A LOAN IS OUTSTANDING AGAINST THE SHARES REPRESENTED BY THIS VOTING TRUST CERTIFICATE".

SECTION NINETEEN

TRANSFER OF VOTING TRUST CERTIFICATES AND OPERATION OF VOTING TRUST

The voting trustees shall designate a person to act as its secretary, which person may also be an agent or employee of the First National Bank of Lincolnwood. The Bank shall be the transfer agent. The voting trust certificate book shall be kept at the Bank and shall be available for inspection by any shareholder at any time during business hours. Any two voting trustees may sign a voting trust certificate. The original voting trust agreement shall be lodged with the First National Bank of Lincolnwood and shall be made a part of its official corporate records, and shall be available for inspection at all times during business hours by any unit holder of shareholder desiring to inspect such agreement as required by Chapter 32, Section 157.30a of the Illinois Revised Statutes. In the event that the voting trustees cannot agree on the nomination of a slate of directors for the First National Bank of Lincolnwood, by reason of an even division in their numbers, then and in that event the voting trustees shall execute a proxy to such person as may be nominated by the holder or holders of a majority of the outstanding units of the Voting Trust. The written instruction of such majority holders of voting trust certificates (by number of units) shall be sufficient to require the voting

SECTION TWENTY

NAME OF VOTING TRUST

This Voting Trust shall be known as "The First National Bank of Lincolnwood Voting Trust".

IN WITNESS WHEREOF the parties hereto have executed this Agreement, and the Trustees have accepted the trust herein created.

Dated at Chicago and Lincolnwood, Illinois this 20th day of February, 1973.

SHAREHOLDERS

Name	Address	Number of shares
/s/ George B. Collins	4527 Church St.	
/s/ Donald Kaufman	304 Ridge Road	
/s/ Harry Zaidenberg	10 N. Clark St.	
/s/ Joseph P. Stelzer		

TRUSTEES

/s/ Donald Kaufman /s/ Harry Zaidenberg

/s/ Joseph P. Stelzer /s/ George B. Collins

The undersigned, depositors of the number of shares set forth opposite their names, do, on the date hereinafter set forth, become parties to the aforesaid voting trust agreement, and acknowledge receipt of a copy of said voting trust agreement.

THE FIRST NATIONAL BANK OF LINCOLNWOOD

Consolidated Statement of Condition

	December 31, 1974	December 31, 1973
ASSETS		
Cash and due from Banks	$ 9,333,281.62	$ 7,384,184.00
Investment Securities: (Note 2)		
United States Government Obligations	2,689,015.50	3,665,206.37
Obligations of Federal Agencies	4,410,881.15	6,113,695.09
Obligations of States and Political Subdivisions	7,577,578.69	6,960,356.87
Other Securities	7,172,052.04	7,889,391.96
Federal Funds Sold	4,150,000.00	1,500,000.00
Loans	33,917,558.93	28,427,820.82
Bank Premises and Equipment (Note 3)	1,166,316.68	1,041,938.79
Income Earned, But Not Collected	432,198.50	459,488.95
Other Real Estate Owned	185,527.85	46,169.02
Other Assets	101,007.47	88,860.24
Total Assets	$71,135,419.02	$63,577,168.77
LIABILITIES, RESERVE AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand Deposits	$24,747,399.45	$24,339,199.46
Time Deposits	40,902,620.03	34,439,245.30
Total Deposits	65,650,019.48	58,778,444.76
Unearned Income	1,397,111.17	1,011,278.44
Other Liabilities	277,421.29	141,614.15
Total Liabilities	67,324,551.94	59,931,337.35
RESERVE FOR POSSIBLE LOAN LOSSES (Notes 1 and 4)	195,008.83	367,967.21
SHAREHOLDERS' EQUITY:		
Common Stock, $10.00 Par Value, 144,375 Shares Authorized and Outstanding	1,443,750.00	1,443,750.00
Capital Surplus	506,250.00	456,250.00
Retained Earnings	1,665,858.25	1,377,864.21
Total Shareholders' Equity	3,615,858.25	3,277,864.21
Total Liabilities, Reserve and Shareholders' Equity	$71,135,419.02	$63,577,168.77

See Accompanying Notes to Consolidated Financial Statements

THE FIRST NATIONAL BANK OF LINCOLNWOOD

Consolidated Statement of Income

	Year Ended December 31, 1974	1973
OPERATING INCOME		
Interest and Fees on Loans	$ 2,595,915.87	$ 2,043,274.94
Income on Federal Funds Sold and Other Funds	385,656.41	38,318.69
Interest and Dividends on:		
U.S. Treasury Securities	170,075.98	225,412.38
U.S. Government Agency Obligations	343,642.58	459,635.08
Obligations of States and Political Subdivisions	265,051.17	307,476.82
Other Securities	511,229.51	509,999.11
Service Charges on Deposit Accounts	105,833.64	112,726.23
Other Service Charges	40,375.22	30,042.20
Other Income	91,083.46	85,786.52
Total Operating Income	$ 4,526,863.84	$ 3,812,674.87
OPERATING EXPENSES		
Salaries	$ 837,556.70	$ 658,557.98
Profit Sharing and Other Employee Benefits	183,959.58	163,939.82
Interest on Deposits	1,858,733.35	1,618,248.60
Interest on Borrowed Funds and Federal Funds Purchased	616.44	44,833.87
Occupancy Expense	146,343.83	99,454.34
Equipment Rentals, Depreciation and Maintenance	86,305.74	63,629.51
Provision For Possible Loan Losses (Note 4)	143,000.00	107,500.00
Other Operating Expenses	689,445.13	528,494.40
Total Operating Expenses	3,945,960.77	3,284,658.52
Income Before Income Taxes	582,903.07	528,016.35
Applicable Income Taxes (Note 5)	136,853.71	78,922.01
Income Before Securities Gains or (Losses)	446,049.36	449,094.34
Net Security Loss After Related Income Tax of $26,402.00 in 1973		(41,080.35)
Income Before Extraordinary Loss and cumulative effect of a change in an Accounting Estimate	446,049.36	408,013.99
Extraordinary Loss, Net of Applicable Income Tax of $71,516.99 (Note 7)	(77,476.73)	—
Cumulative Effect in change of an Accounting Estimate (Notes 1 and 4)	189,887.77	—
Net Income	$ 558,460.40	$ 408,013.99
Earnings Per Share:		
Income Before Securities Gains or (Losses)	$ 3.09	$ 3.11
Income Before Extraordinary Loss and Cumulative Effect of a Change in an Accounting Estimate	$ 3.09	$ 2.83
Extraordinary Loss	(.54)	—
Cumulative Effect of a Change In an Accounting Estimate	1.32	—
Net Income	$ 3.87	$ 2.83

See Accompanying Notes to
Consolidated Financial Statements

THE FIRST NATIONAL BANK OF LINCOLNWOOD

Consolidated Statement of Shareholders' Equity, And Undivided Profits

	Year Ended December 31, 1974	1973
SHAREHOLDERS' EQUITY		
Balance, Beginning of year	$ 3,277,864.21	$ 2,852,458.14
Miscellaneous Adjustments	—	4,995.29
Balance, January 1, As Adjusted	3,277,864.21	2,857,453.43
Additions:		
Net Income	558,460.40	408,013.99
Transfer from Valuation Reserve Other Real Estate Owned	—	12,396.79
Total Additions	558,460.40	420,410.78
Deductions:		
Cash Dividend ($1.35 per share)	194,906.25	—
Transfer from Undivided Profits to Reserve for Possible Loan Losses, Net of Tax Effect of $23,593.94 (Note 4)	25,560.11	—
Total Deductions	220,466.36	—
Balance, End of Year	$ 3,615,858.25	$ 3,277,864.21

	1974	1973
UNDIVIDED PROFITS		
Balance, Beginning of Year	$ 1,377,864.21	$ 952,458.14
Miscellaneous Adjustments	—	4,995.29
Balance, January 1, As Adjusted	1,377,864.21	957,453.43
Additions:		
Net Income	558,460.40	408,013.99
Transfer From Valuation Reserve— Other Real Estate Owned	—	12,396.79
Total Additions	558,460.40	420,410.78
Deductions:		
Cash Dividend ($1.35 Per Share)	194,906.25	—
Transfer To Surplus	50,000.00	—
Transfer To Reserve For Possible Loan Losses, Net Of Tax Effect Of $23,593.94 (Note 4)	25,560.11	—
Total Deductions	270,466.36	—
Balance, End Of Year	$ 1,665,858.25	$ 1,377,864.21

See Accompanying Notes to
Consolidated Financial Statements

THE FIRST NATIONAL BANK OF LINCOLNWOOD

Consolidated Statement of Changes In Financial Position

	Year Ended December 31, 1974	Year Ended December 31, 1973
SOURCES OF FUNDS		
From Operations:		
Income Before Extraordinary Loss and Cumulative Effect of a Change in an Accounting Estimate	$ 446,049.36	$ 408,013.99
Depreciation And Amortization of Premises and Equipment	84,683.61	43,194.46
Provision For Possible Loan Losses	143,000.00	107,500.00
Provision For Deferred Income Taxes	36,593.94	8,000.00
Total From Operations	710,326.91	566,708.45
Increase In Deposits	6,871,574.72	2,655,840.01
Decrease In Investment Securities	2,779,112.29	2,703,473.51
Increase In Unearned Income	385,832.73	382,626.58
Increase In Other Liabilities	122,807.14	15,594.55
Decrease (Increase) In Income Earned, But Not Collected	27,290.45	(40,005.42)
Total Sources Of Funds	$10,896,944.24	$ 6,284,237.68
USES OF FUNDS		
Increase In Loans Before Net Charge-Offs	$ 5,664,962.77	$ 5,142,878.23
Increase (Decrease) In Federal Funds Sold	2,650,000.00	(300,000.00)
Increase (Decrease) In Cash And Due From Banks	1,949,096.93	(38,710.70)
Increase In Bank Premises And Equipment	209,001.50	135,503.18
Increase (Decrease) In Other Real Estate Owned	139,358.83	(3,418.13)
Cash Dividend Declared	194,906.25	—
Extraordinary Loss (Net Of Tax Effect)	77,476.73	—
Decrease In Due To Federal Reserve Bank	—	1,431,194.58
Increase (Decrease) In Other Assets	12,141.23	(83,209.48)
Total Uses Of Funds	$10,896,944.24	$ 6,284,237.68

See Accompanying Notes to Consolidated Financial Statements

THE FIRST NATIONAL BANK OF LINCOLNWOOD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies—The accounting and reporting policies of the First National Bank of Lincolnwood and its subsidiaries generally conform with accepted accounting principles and predominant practices within the banking industry.

Principles of Consolidation—The accompanying financial statements are consolidated to include the accounts of the First National Bank of Lincolnwood and its wholly owned subsidiaries, Lincolnwood National Safe Deposit Company and First Travel Tours, Incorporated. All material intercompany accounts and transactions have been eliminated.

Investment Securities—Investment securities are stated at cost adjusted for amortization of premium and accretion of discount. Net gains or losses, if any, on the sale of these securities are shown as a separate item on the consolidated statement of income.

Bank Premises and Equipment—Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed principally on the straight line method for the [Illegible] and improvements thereon. Furniture and equipment are depreciated using both straight line and accelerated methods over their estimated useful lives of the assets. The bank's drive-in facility is being depreciated on an accelerated method over its initial lease term.

Reserve For Possible Loan Losses and Change in Accounting Estimate—The provision for possible loan losses charged to operating expenses is computed by applying an historic five-year

moving average ratio of net charge-offs to total average loans to the average loans outstanding for the current year.

The transfer betwen undivided profits and the reserve for possible loan losses represents the amount, net of related tax effect, necessary to adjust the reserve for the amounts to be deducted for income tax purposes.

The reserve is composed of a valuation portion, a contingency portion and a deferred tax portion. Actual loan losses charged to the reserve in excess of the valuation portion would require an additional charge to net income to restore the reserve.

The accounting policies described in the two preceding paragraphs of this footnote were adopted by the bank as of January 1, 1974. In order to implement these accounting policies, which are predominant practices within the banking industry, the bank has recorded in income during 1974 as a "Change in accounting estimate" the amount of $189,887.77, representing the excess for financial statement reporting purposes over income tax reporting purposes of the bank's reserve for possible loan losses as of January 1, 1974.

Income Taxes—Income tax expense is computed on reported income adjusted for differences, primarily municipal income, which will never enter into the computation of taxes payable under applicable tax laws. Accretion of discount on securities and provision for possible loan losses, are accounted for in different time periods for financial reporting purposes than for income tax purposes. Appropriate provisions are made in the consolidated financial statements for deferred taxes in recognition of these timing differences.

Investment tax credits are applied as a reduction of income taxes on the flow-through method.

THE FIRST NATIONAL BANK OF LINCOLNWOOD

Notes to Consolidated Financial Statements

Note 2 — **Investment Securities** — Accreted discount amounts included in interest and dividends on securities were $45,913.27 in 1974 and $53,632.54 in 1973.

Investment securities carried at $3,334,345.56 and $1,272,781.68 as of December 31, 1974 and 1973 in the Consolidated Statement of Condition were pledged to secure Government and Public Deposits as required by law.

The amounts at which investment securities are carried and their approximate fair market values are summarized below:

	December 31, 1974		December 31, 1973	
	Book Value	Market Value	Book Value	Market Value
Investment Securities:				
U.S. Treasury Securities	$ 2,689,015.50	$ 2,626,890.61	$ 3,665,206.37	$ 3,596,728.12
Securities of Other United States Government Agencies	4,410,881.15	4,311,875.00	6,113,685.06	6,004,187.50
Obligations of States And Political Subdivisions	7,577,578.68	7,178,506.99	6,960,356.87	6,761,339.92
Other Securities	7,172,052.64	7,171,171.36	7,883,409.57	7,799,820.26
	$21,849,527.97	$21,288,443.96	$24,628,657.87	$24,162,075.80

The schedule of maturities are as set forth below:

	TAXABLE SECURITIES		TAX EXEMPT SECURITIES	
	December 31,		December 31,	
	1974	1973	1974	1973
MATURITIES:				
0-1 Year	$ 2,902,673.25	$ 3,752,981.71	$ 376,148.45	$ 265,192.59
1-5 Years	10,269,181.54	10,576,645.70	6,212,750.14	6,261,068.30
5-10 Years	901,094.50	3,156,173.59	888,680.09	333,095.98
Over 10 Years	199,000.00	182,500.00	100,000.00	100,000.00
	$14,271,949.29	$17,668,301.00	$ 7,577,578.68	$ 6,960,356.87
Average	2 Yr. 8 Mo.	2 Yr. 7 Mo.	3 Yr. 7 Mo.	4 Yr. 1 Mo.

Note 3 — **Bank Premises and Equipment** — Bank premises and equipment at December 31, are summarized as follows:

	1974			1973
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 352,871.23	$ —	$ 352,871.23	$ 352,871.23
Main Bank Building	530,400.00	127,313.28	403,086.72	413,731.92
Building Improvements	155,024.54	82,251.29	72,773.25	72,242.79
Drive-In Facility	243,271.77	32,681.69	210,590.08	91,703.83
Furniture and Equipment	278,767.64	151,772.24	126,995.40	123,254.79
Totals	$ 1,560,335.18	$ 394,018.50	$ 1,166,316.68	$ 1,041,998.79

The provision for depreciation and amortization for 1974 and 1973, was $84,683.61 and $43,194.46, respectively.

Notes to Consolidated Financial Statements

Note 4 — Reserve For Possible Loan Losses — A Summary of Changes in the Reserve For Possible Loan Losses is shown below:

	Year Ended December 31, 1974	Year Ended December 31, 1973
Balance, Beginning of Year	$ 367,967.21	$ 375,937.77
Recoveries of loans previously charged off	33,569.35	15,868.77
Provision charged to operating expenses	143,000.00	107,500.00
Deferred income taxes charged against earnings	23,593.[illegible]	—
Transfer from Undivided Profits after tax effect	25,56[illegible]	—
	593,69[illegible].61	499,356.54
Loans charged off	208,7[illegible]4.01	131,389.33
Cumulative effect of change in an Accounting Estimate	18[illegible],[illegible]87.77	—
Balance, End of Year	$ 195,008.83	$ 367,967.21
The Balance of the Reserve Consists of:		
Valuation amount	145,854.78	367,967.21
Contingency amount transferred from Undivided Profits	25,560.11	—
Deferred Income Taxes	23,593.94	—
Totals	$ 195,008.83	$ 367,967.21

Note 5 — Income Taxes — As a result of differences between book and tax treatment of accretion of discount on investment securities and provision for possible loan losses, amounts included in the provision for federal income tax of $36,593.94 in 1974 and $8,000.00 in 1973 were deferred. Income tax expense varies from the statutory rate due to tax exempt state and municipal securities interest.

Investment tax credits were approximately $3,700.00 in 1974 and $1,600.00 in 1973.

Note 6 — Lease Commitment — The bank is obligated under a sublease for a parcel of property upon which the bank's drive-in facility is situated. The lease has an initial term through July 30, 1982 and provides for an annual rental of $12,000.00 per year. Additionally, the bank has a renewal option running through July 30, 2002 at the rate of $17,000.00 per year, however, such renewal option is dependent upon the exercise by the lessee of its renewal option with the lessor. The bank is required to pay real estate taxes applicable to the leased property.

Note 7 — Extraordinary Loss — Extraordinary loss results from the liquidation of $150,000.00 Franklin New York Corporation 7.30% Notes due November 15, 1979. The loss on liquidation amounted to $148,993.72 which, net of applicable income taxes of $71,516.99, resulted in a net charge against the current year of $77,476.73.

Directors, Advisory Board and Officers

Board of Directors

Dr. Fred Weitz
Chairman of the Board

Mark A. Rubert
C.P.A.

Harold Cohn
President &
Vice Chairman of the Board

Joseph P. Stelzer
J. P. Stelzer & Associates

Clarence Pormut
President Eric Clothing Co.

Harry Zaidenberg
Attorney, Zaidenberg, Hoffman & Schoenfeld

Advisory Board

Robert Dachman
Pasquale De Marco, M.D.
Joseph E. Franks
Donald Harris
Donald Kaufman
Nathan Wagner
Nels E. Werner

Officers

Harold Cohn
President

Joseph E. Franks
Executive Vice President

Sally Schneider
Senior Vice President

Ralph E. Kuhlman
Vice President & Comptroller

Robert J. O'Rourke
Vice President & Cashier

John A. Biordi
Vice President

Paul H. Thomas
Vice President

Anthony J. Vazquez
Auditor

Glenn E. Autenrieth
Assistant Vice President

Joseph W. Diosi
Assistant Vice President

Goldie Becker
Assistant Cashier

Rae Belonsky
Assistant Cashier

Evelen Velen
Assistant Cashier

Ed J. Wendt
Assistant Cashier

Betty Banks
Pro-Cashier

Graham Fletcher
Pro-Cashier

Lincolnwood National Safe Deposit Co.

Joseph E. Franks
President

Anthony J. Vazquez
Secretary

H[illegible]
Tr[illegible]

First Travel Tours, Inc.

Harold Cohn
President

Sally Schneider
Vice President

Paul H. Thomas
Secretary

Ralph E. Kuhlman
Treasurer

PRO FORMA STATEMENT OF REVENUE & EXPENSES & DEBT AMORTIZATIONS

(HUNDREDS OMITTED)

REVENUE:	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
DIVIDENDS	754	438	428	428	417	416	406	404	393	391	379	389
TOTAL REVENUE	754	438	428	428	417	416	406	404	393	391	379	389
DISBURSEMENTS:												
BANK LOAN-												
PRIN. REDUCTION *	685	250	250	260	260	270	270	280	280	290	290	312
INTEREST EXPENSE	131	241	221	201	180	159	138	116	94	71	48	25
SUBORDINATED CAPITAL NOTES:												
INTEREST EXPENSE	-0-	120	120	120	120	120	120	120	120	120	120	120
MISC. EXPENSE	1	1	1	2	2	2	3	3	3	4	4	4
INCOME TAX CREDIT ***	(63)	(174)	(164)	(155)	(145)	(135)	(125)	(115)	(104)	(94)	(83)	(72)
TOTAL DISBURSEMENTS	754	438	428	428	417	416	406	404	393	391	379	389
OUTSTANDING BALANCE BANK LOAN (6)	3,697	3,012	2,762	2,512	2,252	1,992	1,722	1,452	1,172	892	602	312
*PRINCIPAL REDUCTION	685	250	250	260	260	270	270	280	280	290	290	312
	3,012	2,762	2,512	2,252	1,992	1,722	1,452	1,172	892	602	312	-0-

***INTEREST AND EXPENSES TIMES AN ASSUMED TAX RATE OF 48%

IT IS ANTICIPATED THAT APPLICANT AND BANK WILL FILE A CONSOLIDATED INCOME TAX RETURN.

(NOTES TO FINANCIAL STATEMENTS ARE ATTACHED)

NOTES TO FINANCIAL STATEMENTS

Net operating income before taxes is computed at 1.07% of total assets. The net operating income ratio of 1.07% of total assets represents a higher ratio than previously experienced primarily due to a decrease in legal expenses previously incurred. Legal expenses incurred during the year from 1966 to 1974 total $470,446.38 which is well above the normal expense incurred in the course of business. Charged off loans, net of recoveries for the same period total $1,287,499.58. Losses suffered due to the settlement of certain litigation during this period total $191,000.00. The above mentioned losses and legal expenses total $1,948,945.96. Responsibility for losses incurred during this period rests with previous management as evidenced by comparison of Regulatory agency examination reports for the period discussed. It is current managements opinion that these losses and expenses are non-recurring and that for this reason the Bank's earnings and subsequently it's equity capital will be enhanced considerably. Assets have been redistributed to show an increase in the Municipal Bond Portfolio and an upgrading of tax exempt yields in the future.

Generally income and expense totals have been computed in accordance with published operating ratios of member banks of the Seventh Federal Reserve District for banks with deposits between $50,000,000.00 and $100,000,000.00.

(1) Asset growth represents an approximate increase of 10% per year.

(2) Demand Deposit and time deposit ratios to total deposits represent recent deposit trends of the First National Bank of Lincolnwood.

(3) Reserve for loan losses is computed at .8% of Loans and Discounts.

(4) Total Equity Capital reflects the infusion of $1,500,000.00 from the sale of Capital Notes by First Lincolnwood Corp.

(5) Income tax liability reflects consolidation of First Lincolnwood Corp. and The First National Bank of Lincolnwood.

(6) The outstanding loan balance of $3,697,000.00 will be reduced immediately after approval of the proposed acquisition by the First Lincolnwood Corp. in the amount of $417,000.00 to bring the debt of the Holding Company to $3,280,000.00 or 74.88% of the original cost of shares of the First National Bank of Lincolnwood. Total Equity Capital is projected after dividend payments plus the infusion of proceeds from the sale of $1,500,000.00 of Capital Notes of the First Lincolnwood Corp.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

Date—August 19, 1975

OFFICE CORRESPONDENCE

To Records

From Kevin M. Raymond—kmc

Subject: Meeting with First Lincolnwood Corp., Lincolnwood, Illinois ("Applicant").

Participants:

Board Staff: Messrs. Kline, Brumbaugh, Raymond, Brown (Legal), Martin (R&S).

First Lincolnwood: Harold Cohn (President), Robert O'Rourke (Vice President), Joseph Lutz (Consultant).

Mr. Cohn opened with discussion of background of First National Bank of Lincolnwood ("Bank"), indicating several past problems with "underworld" influence in bank ownership. Mr. Cohn's ownership group purchased a 55 per cent interest in Bank in 1972, and, according to Mr. Cohn, at the persuasion of the "regulators," bought out an additional 35 per cent interest owned by alleged underworld figure, Mr. Perjansky—to get Mr. Perjansky completely out of the Bank. According to Mr. Cohn, debt incurred as a result of the Perjansky purchase was $1,460,000.

Mr. Cohn indicated that the Comptroller of the Currency misunderstood the application and that this may be why a denial recommendation was rendered by the Comptroller of the Currency. Mr. Cohn and his group were to meet with the Comptroller's office later this afternoon, (8/18/75) and attempt to resolve the misunderstanding and perhaps determine the Comptroller's views on the Bank's capital position.

Mr. Cohn also stated that his ownership group received some type of assurance from the "regulators," including F.R. Chicago, at the time of the Perjansky purchase that there would "probably be no problem in getting an approval for a holding company."

SUPREME COURT OF THE UNITED STATES

No. 77-832

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, PETITIONER

—v.—

FIRST LINCOLNWOOD CORPORATION

ORDER ALLOWING CERTIORARI. Filed February 21, 1978

The petition herein for a writ of certiorari to the United States Court of Appeals for the Seventh Circuit is granted.

[Received Mar. 3, 1978, Office of Solicitor General]

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